Discussion and Analysis of Operations

Discussion and Analysis of Operations – Introduction

HUD's Major Programs Fall Into Three Categories:

The Federal Housing Administration (FHA)

The Government National Mortgage Association (Ginnie Mae)

HUD's Grant, Subsidy, and Loan Programs

This section discusses the Department's performance in addressing each of HUD's priorities. Since HUD's consolidating financial statements show financial information for each of HUD's major programs, significant performance information included through-out the Discussion and Analysis is also categorized by major program, where available.

HUD's programs fall into three categories: the Federal Housing Administration (FHA); the Government National Mortgage Association (Ginnie Mae); and HUD's grant, subsidy, and loan programs.

FHA and Ginnie Mae

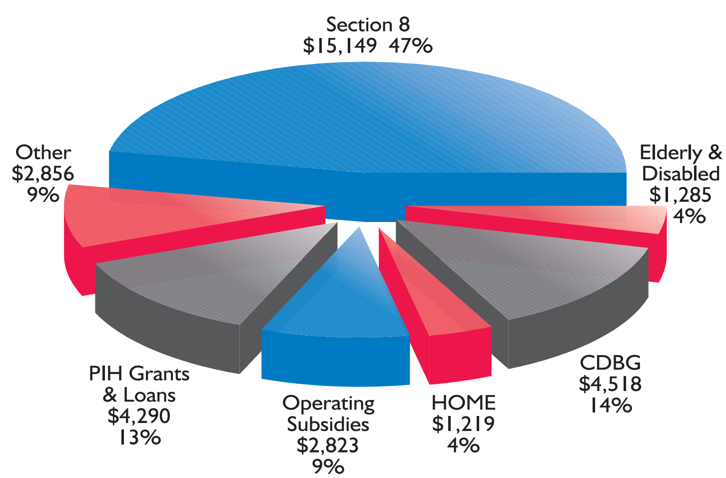
The objectives of programs carried out by FHA and Ginnie Mae relate directly to developing affordable housing. Accordingly, the discussions of these programs are in the "Increase Homeownership Opportunities, Especially in Central Cities, through a Variety of Tools, such as Expanding Access to Mortgage Credit" section of this report.

Grant, Subsidy, and Loan Programs

HUD's grant, subsidy, and loan programs relate to all six HUD priorities and are, therefore, addressed throughout the remainder of the Discussion and Analysis section of this report. HUD's most significant grant, subsidy, and loan programs, in terms of expenses, are:

- Section 8 Lower Income Rental Assistance;
- Community Development Block Grants;
- HOME Investment Partnerships;
- Public and Indian Housing Grants and Loans;
- Operating Subsidies; and
- Housing for the Elderly and Disabled.

Grant, Subsidy, and Loan Programs Expenses for FY 1997
(Dollars in Millions)



The consolidating financial statements give information for each of the above programs. Total expenses during FY 1997 for HUD's grant, subsidy and loan programs totaled $32.1 billion.

Several of HUD's subsidy programs provide assistance for the purchase or rental of housing units. The following shows the number of housing units eligible for HUD assistance during the last five years (FY 1997 information is estimated):

Total Number of Housing Units Eligible for HUD Assistance

During the Last Five Fiscal Years*

Program	1993	1994	1995	1996	1997
HUD's Major Assistance Programs					
Section 8 Lower Income Rental Assistance Program					
Tenant-based Assistance	1,391,794	1,477,942	1,397,747	1,451,397	1,460,899
Project-based Assistance	1,420,214	1,448,017	1,513,945	1,506,765	1,482,735
Total Section 8	2,812,008	2,925,959	2,911,692	2,958,162	2,943,634
Public Housing Programs	1,407,923	1,409,455	1,397,205	1,388,746	1,372,260
	4,219,931	4,335,414	4,308,897	4,346,908	4,315,894
Other Assistance Programs					
Homeownership Assistance Program (Section 235)	95,263	80,365	76,092	68,473	60,810
Rental Housing Assistance Program (Section 236)	510,105	504,966	508,353	505,305	494,121
Rent Supplement	19,270	18,808	20,860	20,860	20,860
	624,638	604,139	605,305	594,638	575,791
Less estimated number of households receiving more than one form of assistance (double count)	(190,140)	(190,140)	(190,140)	(190,140)	(190,140)
Total	4,654,429	4,749,413	4,724,062	4,751,406	4,701,545

*The units for fiscal years 1994 through 1996 have been restated to reflect the number of units eligible for assistance per HUD's Annoted Tables for the FY 1998 Budget Process.

Increase Homeownership Opportunities, Especially in Central Cities, Through a Variety of Tools, Such as Expanding Access to Mortgage Credit

This section contains:

Federal Housing Administration (FHA)

Government National Mortgage Association (Ginnie Mae)

HUD has many programs which make homeownership possible for more Americans. These programs address a wide range of housing activities, from providing mortgage insurance to guaranteeing mortgage securities to providing assistance for the development of new housing and the rehabilitation of existing housing.

The 1997 U.S. homeownership rate was 65.7 percent – the highest annual rate in American history. The previous all-time annual high was 65.6 percent, set in 1980. The new Census Bureau figures mean that 67.1 million American families now own their homes. Over 5 million more American families owned homes in 1997 than when President Bill Clinton took office in 1993.

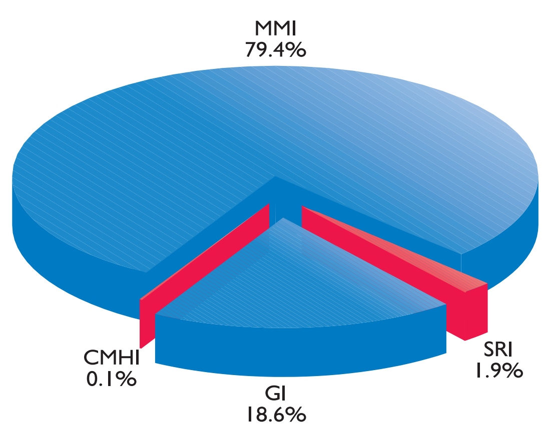
An important factor contributing to the growth in homeownership has been the National Partners in Homeownership, a coalition of 65 national groups representing the housing industry, lenders, non-profit groups and all sectors of government working to make buying a home more affordable, faster, and easier. Since the partnership was created in 1995 as part of the President's National Homeownership Strategy, the overall annual homeownership rate has increased from 64 percent for 1994 to 65.7 percent for 1997.

Federal Housing Administration

The Federal Housing Administration (FHA), a wholly owned government corporation, was established under the National Housing Act of 1934 to improve housing standards and conditions, to provide an adequate home financing system through insurance of mortgages, and to stabilize the mortgage market. FHA was consolidated into the newly established Department of Housing and Urban Development (HUD) in 1965.

FHA insures private lenders against loss on mortgages which finance single family homes, multifamily projects, health care facilities, property improvements, and manufactured homes. The primary goal of FHA's insurance programs is to expand home ownership and affordable housing for all Americans. FHA's programs are financed through a Public Enterprise Revolving Fund, the FHA Fund, which is supported through premium income, investment income, Congressional appropriations, and other miscellaneous sources.

FHA Insurance Funds
as of September 30, 1997



DISCUSSION AND ANALYSIS OF OPERATIONS

The FHA Fund is comprised of four sub-funds:

The Mutual Mortgage Insurance (MMI) Fund supports FHA's basic single family homeownership program and historically has been self-sustaining.

The General Insurance (GI) Fund supports a wide variety of multifamily and single family insured loan programs for rental apartments, cooperatives, condominiums, housing for the elderly, nursing homes, hospitals, property improvement and manufactured housing (Title I), and disaster assistance.

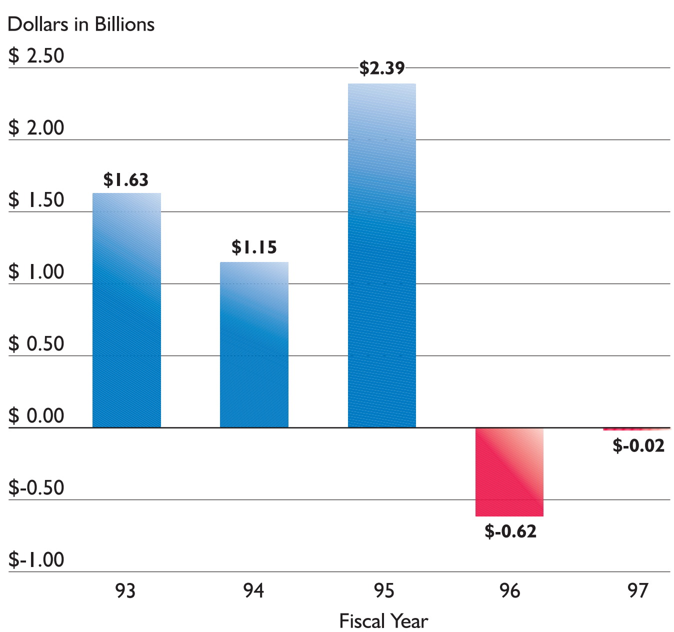
The Special Risk Insurance (SRI) Fund supports multifamily rental projects and loans to high-risk borrowers, many of whom have in the past been eligible for subsidized interest rates.

The Cooperative Management Housing Insurance (CMHI) Fund supports insurance on market-rate cooperative apartment projects and, like the MMI Fund, has historically been self-sustaining.

At September 30, 1997, the insurance-in-force for the MMI Fund comprised 79.4 percent of the FHA Fund; the GI Fund, 18.6 percent; the SRI Fund, 1.9 percent; and the CMHI Fund, less than one-tenth of one percent

Results Of Operations and Financial Position

FHA Net Income
As of September 30th



FHA Results of Operations
(Dollars in Billions)

	1993	1994	1995	1996	1997
Revenues	2.642	2.818	3.150	3.190	3.659
Expenses	1.016	1.670	0.760	3.808	3.676
Net Income (Loss)	1.626	1.148	2.390	(0.618)	(0.017)

During FY 1997, FHA's revenue increased by $469 million, and expenses decreased by $132 million. As a result, the deficit for the year ended September 30, 1997 was $17 million as compared to a deficit of $618 million for the year ended September 30, 1996. The increase in revenues is primarily due to the growth of the insurance-in-force which generated a $344 million increase in both the annual and earned portion of up-front premiums. In addition, interest and other income increased by $125 million. The decrease in expenses of $132 million is the result of a number of factors discussed in the following paragraphs.

For the third year in a row, FHA had a successful asset sales program which continued to reduce the levels of single family and multifamily note inventories. After considering the related loss allowance, unearned discount, and cost of sales associated with the assets sold, the gain on the sale of mortgage notes was $92 million and $187 million for the years ended September 30, 1997 and 1996, respectively.

The positive results of the asset sales increased recovery rates on mortgage notes and therefore resulted in a negative provision for losses on the mortgage notes portfolio of $819 million at September 30, 1996. As a result, the $308 million charged to operations for the FY 1997 provision for losses on mortgage notes resulted in a net increase between years of $1.1 billion.

In addition, the FY 1997 provision for losses on property held for sale was $2.23 billion, $257 million higher than the prior year. This increase was a result of an increase in property inventory at September 30 1997.

Salary and administrative expenses increased by $40 million, interest expense increased by $39 million, and other expenses increased by $68 million.

The above increases in expenses for FY 1997 are offset by the $1.8 billion decrease in provision for loan guarantee liability compared to FY 1996. This decrease is discussed in more detail in the Loan Guarantee Liability section below.

FHA Statements of Financial Position as of September 30th
(Dollars in Billions)

	1993	1994	1995	1996	1997
Assets	14.8	15.8	17.3	20.5	20.8
Liabilities	21.1	21.3	20.6	24.3	25.0
Deficiency	(6.3)	(5.5)	(3.3)	(3.8)	(4.2)

Net Government deficiency increased in FY 1997 by $400 million primarily as a result of the $17 million operating deficit and a net decrease of $329 million in appropriations. The Fund Balances at the U.S. Treasury and investments increased $2.6 billion.

Secretary-Held Mortgage Notes

Note Inventory as of September 30th
(Dollars in Billions)

	1993	1994	1995	1996	1997
Single Family	3.833	4.278	4.774	3.023	0.677
Title I	0.383	0.366	0.380	0.294	0.356
Multifamily	7.577	7.056	5.686	3.023	2.208
Health Care	0.273	0.252	0.230	0.236	0.048
Total	12.066	11.952	11.070	6.576	3.289

The overall unpaid principal balance (UPB) of Secretary-held mortgage notes declined 50 percent between 1996 and 1997 primarily due to the 4 asset sales held in the single family, multifamily and health-care programs during FY 1997. The single family, multifamily, and healthcare note UPB decreased in FY 1997 by 77.6 percent, 27 percent and 79.7 percent, respectively. There were no Title I asset sales in FY 1997. The UPB increased by 21.1 percent or $62 million in 1997 as a result of loan defaults.

Prior to April 1996, FHA would take assignment of single family notes when defaults resulted from temporary hardship conditions. During 1996, Congress mandated that FHA discontinue the single family assignment program and develop and implement a loss mitigation program to reduce defaults and related costs. However for FY 1997, the termination of the assignment program has resulted in increasing the number of foreclosed properties held for sale.

Secretary-Held Foreclosed Properties

Secretary-Held Property Inventory as of September 30th
(Dollars in Billions)

	1993	1994	1995	1996	1997
Single Family	2.310	2.144	1.806	1.860	2.435
Multifamily	0.823	0.712	0.535	0.490	0.355
Total	3.133	2.856	2.341	2.350	2.790

Figures reflect acquisition and holding costs.

While the amount of foreclosed property increased by $440 million over 1996, the value is still 10.9% lower than in 1993. Between 1993 and 1997, the number of multifamily properties declined from 178 to 52, and single family properties increased from 30,946 to 34,116. As previously mentioned, this increase is primarily due to the termination of the single family mortgage notes assignment program. Concerted effort through asset sales and fully implemented loss mitigation tools, together with legislative changes, should make greater reductions possible in the future.

Loan Guarantee Liability

FHA Loan Guarantee Liability as of September 30th
(Dollars in Billions)

	1993	1994	1995	1996	1997
Single Family	2.455	2.598	2.524	2.632	3.071
Title I	0.118	0.118	0.118	0.118	0.148
Multifamily	10.306	9.534	8.423	10.236	9.930
Total I	12.879	12.250	11.065	12.986	13.149

FHA maintains a loan guarantee liability for the estimated costs of future mortgage insurance claims resulting from defaults that have occurred or that probably will occur among insured single family and multifamily mortgages and Title I loans. Overall, the loan guarantee liability increased by $163 million in 1997 to $13.1 billion. The single family liability increased by $439 million to $3.1 billion, Title I liability increased by $30 million, and multifamily liability decreased by $306 million to $9.9 billion.

The 16.7% increase in single family loan guarantee liability is attributable primarily to an increase in the default rate and the increase in the insured single family portfolio. The 3% decrease in the multifamily loan guarantee liability is the net result of (1) increases in the insured portfolio (necessitating increased reserves of $239 million and (2) the reduction of estimated reserves for potential claims on FHA-insured projects resulting from the reductions of Section 8 rental subsidy payments to market levels as subsidy contracts are renewed over the next 10 years and reductions in healthcare and other reserves totaling $545 million.

Unearned Premiums

The MMI Fund's single family insurance program accounts for $273 million of the $290 million net increase in the FHA's unearned premiums compared to the prior year. This net increase reflects up-front single family premium collections of $1.46 billion, which are offset by premium refunds of $287 million and premium earnings of $899 million.

Borrowings

During FY 1997, FHA borrowed $592 million from the U.S. Treasury for the MMI and GI and SRI Funds to cover re-estimates of prior years insurance and expected gains from new MMI insurance activity as required by the Credit Reform Act. FHA repaid $76 million in prior year borrowings related to the GI and SRI Fund.

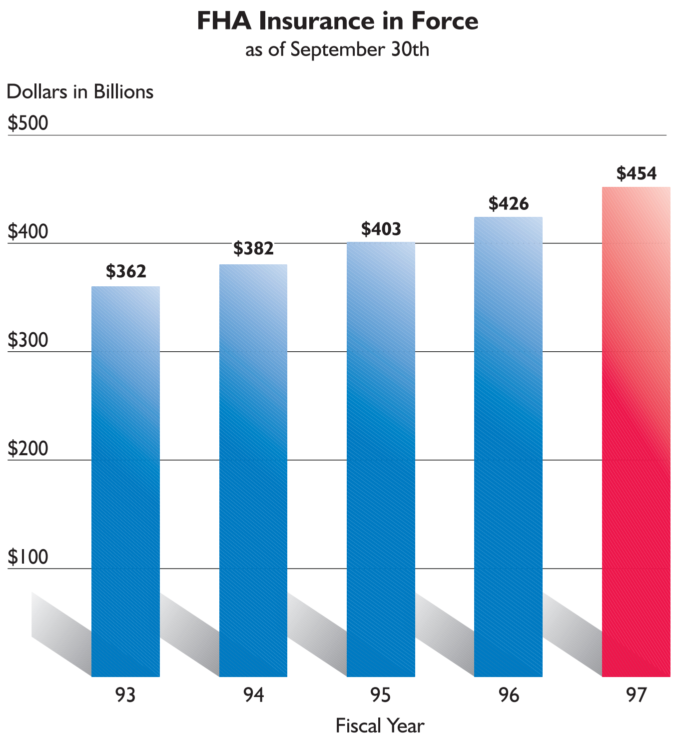
Credit Reform Appropriations

While MMI insurance premiums cover MMI losses, as authorized by statute, GI and SRI insurance premiums are not sufficient to cover losses or to sustain the operations of these Funds. As a consequence, the GI and SRI Funds receive appropriations for positive credit subsidy. In FY 1997 and FY 1996, appropriations needed for new insurance in the GI and SRI Funds were $95 million and $152 million, respectively. GI and SRI administrative expense appropriations for FY 1997 and FY 1996 were $207 million and $202 million, respectively.

The MMI programs produced negative credit subsidy through new insurance. Administrative expenses for the MMI Fund are not covered by appropriations and are funded by operating revenues. In FY 1997 and FY 1996, $351 million and $342 million were used for MMI administrative expense, respectively.

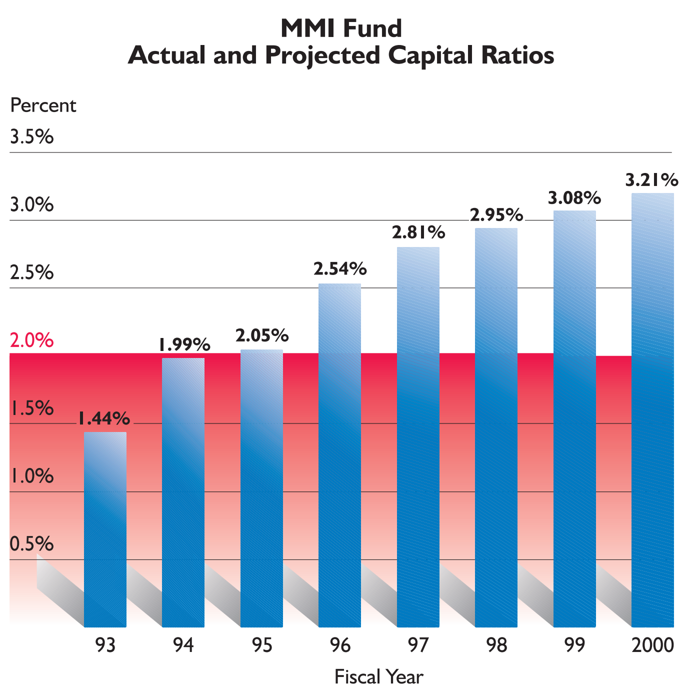
Insurance-In-Force

Mortgage insurance-in-force at September 30, 1997, was $454 billion, an increase of approximately $28 billion over FY 1996. There was a $23 billion increase in the MMI Fund, a $5 billion increase in the GI Fund, and a decrease of $700 million in the SRI Fund. Single family mortgage insurance comprised 87.2 percent of insurance-in-force; multifamily and health care insurance comprised 11.4 percent; and Title I property improvement and manufactured home insurance comprised the remaining 1.4 percent.



MMI Capital Ratio

The National Affordable Housing Act of 1990 requires an independent actuarial analysis of the economic net worth of the MMI Fund.



The 1997 analysis indicates the Fund's capital ratio advanced to 2.81 percent at the end of FY 1997, compared to 2.54 percent at the end of FY 1996. The study indicates that MMI's projected capital ratios for the year is 3.21 percent, respectively, far exceeding the Congressionally mandated ratio of 2.0 percent by the year 2000.

First-Time Homebuyers

One of the most significant missions of the Federal Housing Administration is facilitating the provision of mortgage credit to purchasers who are unserved or underserved by the conventional marketplace. One such category of homebuyers is first-time homebuyers who traditionally have difficulty in accumulating the liquid assets required to close the transaction or the downpayment funds required to obtain conventional financing.

The Department is proud that during FY 1997, it exceeded its goal of providing mortgage insurance on behalf of citizens purchasing their first home by over 5 percent. During the year, 76 percent of the FHA insured mortgages endorsed were for first-time buyers. This translated into over 530,000 families who were able to purchase their first home because of the FHA. FY 1997's result continues the increasing trend in the share of first-time home-owners which was 72.7 percent in FY 1996 and 68.3 percent in FY 1995. These increases are attributable to the Department's aggressive marketing and outreach efforts towards this market through such vehicles as the HELP Program and Home-Buyer Fairs as well as the use of auctions and special promotions for REO sales. This represents an upward trend that the Department expects to continue.

Single Family Non-Profit Sales

The Department sold 3,877 HUD owned properties to non-profit housing providers in FY 1997, compared to 3,403 in FY 1996 and 2,913 in FY 1995. These increases have come as more non-profits become aware of the attractiveness and usefulness of this program in fulfilling their mission of affordable housing. We expect this trend to continue. The FY 1997 sales total represented over 180 percent of the performance goal for the year.

These HUD-owned properties which are sold to the non-profits at a discount ranging from 10 to 30 percent, fulfill a significant and important Departmental objective of providing homeownership opportunities for low and moderate income families. The non-profits which purchase and often rehabilitate these properties are required to pass through the discounts they have received to purchasers, thereby making the home affordable and available to low and moderate income families.

Section 203(k)

The 203(k) program is an example of the FHA's role as a market innovator and leader. The program allows a borrower to finance the purchase and rehabilitation of a single family property in a single mortgage loan which is insured by the FHA. Construction financing for rehabilitation loans is extremely difficult, if not impossible, for an individual to obtain in the conventional marketplace. This program also furthers FHA's mission in facilitating the rebuilding the housing stock in the country's aging cities.

The number of Section 203(k) loans endorsed increased dramatically from 8,426 in FY 1995 to 17,433 in FY 1996, but then decreased slightly in FY 1997 to 16,873. As awareness of this program continues to expand, we expect participation to increase.

FHA Material Weaknesses

During FY 1997, FHA identified no new material weaknesses. Corrective actions to address all existing issues are underway and are discussed in their separately issued annual report.

Government National Mortgage Association (Ginnie Mae)

Ginnie Mae, a wholly-owned Government corporation within the Department of Housing and Urban Development, was created by Congress in 1968. Ginnie Mae's mission is to support affordable homeownership for low and moderate income families by providing liquidity to the secondary mortgage market and by attracting capital from capital markets into residential mortgage markets.

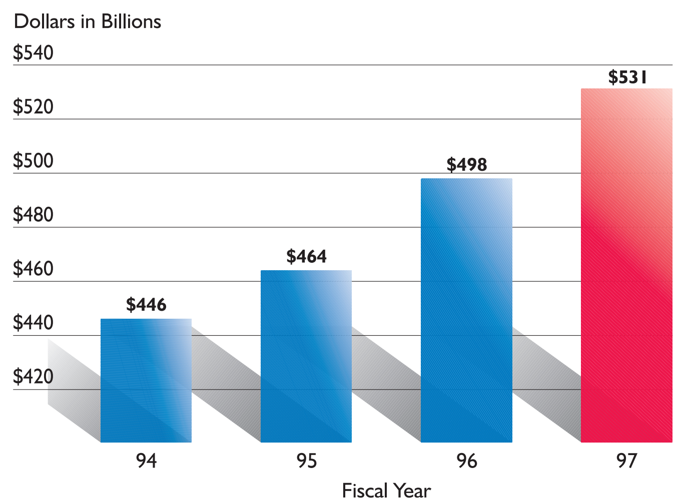
Through its well-known mortgage-backed securities (MBS) programs, Ginnie Mae creates a vehicle for channeling funds from the securities markets into the mortgage market and helps to increase the supply of credit available for housing.

Since inception of the MBS Program in 1970, Ginnie Mae has guaranteed the issuance of $1.3 trillion in securities providing the capital to purchase or refinance over 21 million homes.

Operations

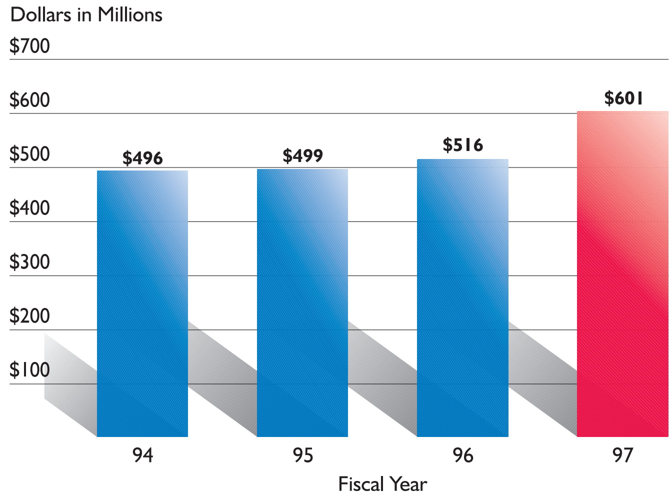
Outstanding Ginnie Mae MBS securities at the end of FY 1997 were $530.6 billion, an increase of $32.7 billion from the $497.9 billion at the end of FY 1996.

GINNIE MAE
Mortgage-Backed Securities
Outstanding at FY End



Ginnie Mae's new Financial Management Team has reported net income for FY 1997 was a record $601.2 million, an increase of $85.7 million from the prior fiscal year. Total revenue increased by $65.7 million over the prior fiscal year to $686.7 million.

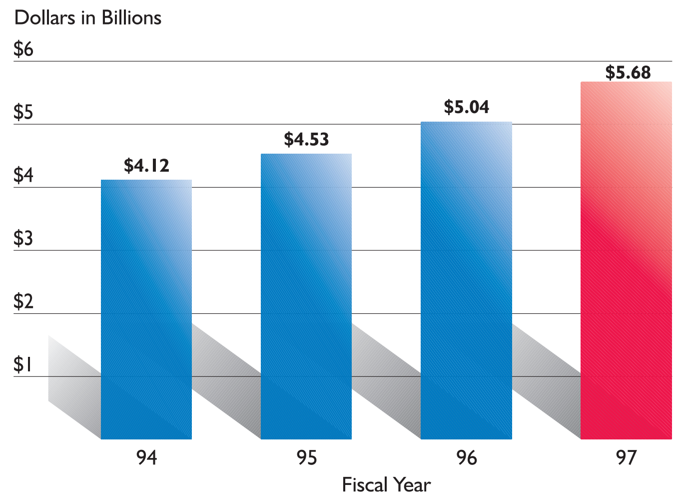
GINNIE MAE
Net Income



Total expenses increased by $2.5 million from the prior fiscal year, but continued to decrease as a percentage of gross revenue to 5.6 percent in FY 1997 from 5.8 percent in FY 1996. Provision for loss on the MBS Program was $46.8 million for FY 1997 and $69.3 million for FY 1996. Ginnie Mae's total expenses were $38.7 million for FY 1997.

Assets increased by $640.5 million over the previous fiscal year to $5.7 billion, primarily as a result of income from operations and interest earned on investments. An increase in MBS Program income and U.S. Government securities accounted for most of the increase in assets from FY 1996.

GINNIE MAE
Total Assets at Fiscal Year End



Liabilities increased by $39.3 million or 7.7 percent from the prior fiscal year, primarily as a result of the increase in Ginnie Mae's reserves for loss.

Ginnie Mae continued its investment strategy of extending the maturity range of its securities portfolio. Following this strategy contributed to the increase in interest income. The following table shows the percent change of securities held in each maturity range.

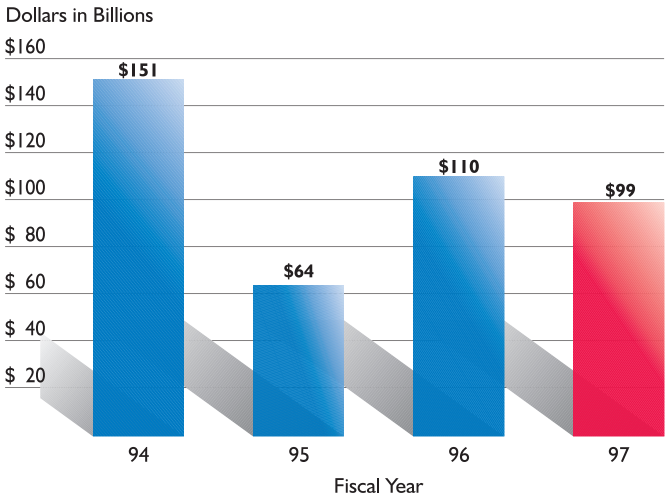
Treasury Securities
(Percent of Total Invested)

Maturity Dates	1995	1996	1997
Less than 1 Year	24	18	9
1 - 5 Years	46	41	47
5 - 10 Years	30	41	44

Administration of Program Activities

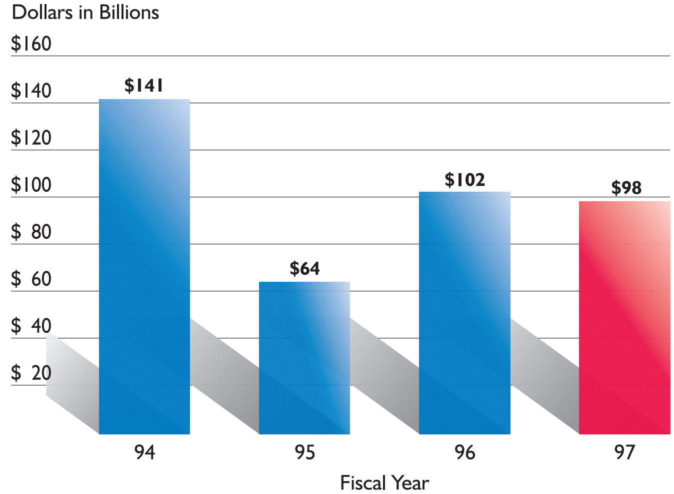
Through the MBS Program, Ginnie Mae guarantees the timely payment of principal and interest to investors of privately issued "Ginnie Mae" securities. These securities are backed by pools of residential mortgages insured or guaranteed by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), and the Rural Housing Service (RHS). Ginnie Mae's guaranty is backed by the full faith and credit of the United States. One of Ginnie Mae's performance measures is to maintain a 95 percent rate of securitization for FHA and VA loans. In FY 1997, Ginnie Mae securitized 98 percent of FHA and VA loans.

GINNIE MAE
Mortgage-Backed Securities
Commitments Issued



Ginnie Mae approved $99 billion in commitment authority during FY 1997, a 10 percent decrease from FY 1996. Of this commitment authority, Ginnie Mae guaranteed the issuance of securities for $98 billion during FY 1997, which provided the capital to finance the purchase or refinance of homes for approximately 1.1 million American families. The $98 billion of security guarantees issued represents a 3.9 percent decrease from FY 1996.

GINNIE MAE
Mortgage-Backed Securities
Security Guarantees Issued



The decrease in commitment and issuance activity resulted from a lag in securitization to market. Of the security guarantees issued, over $95 billion of securities were backed by single-family mortgages; $3 billion were backed by multifamily construction and project loans; and $27 million were backed by manufactured housing loans.

Annual Defaulted Unpaid Principal Balance by Portfolio
(Numbers in Percent)

Portfolio	1994	1995	1996	1997
Single Family	1.81	1.79	1.96	1.97
Multifamily	2.95	1.85	1.44	0.92
Manufactured Housing	3.31	3.67	5.31	4.64

In the Single Family and Manufactured Housing programs, serious delinquencies are loans which are three months or more delinquent plus foreclosures. In Multifamily programs, serious delinquencies are loans delinquent two months or more plus foreclosures.

Delinquency ratios for the MBS pooled mortgages declined in the multifamily and manufactured housing programs compared to the previous year. The single-family delinquency rate increased slightly to 1.97 percent in FY 1997 from 1.96 percent in FY 1996, demonstrating a level consistent with the delinquency ratios in past fiscal years.

The manufactured housing delinquency rate declined to 4.64 percent in FY 1997 from 5.31 percent in FY 1996. Security issuance in the manufactured housing program continues to decrease.

Delinquency ratios in the multifamily programs declined to 0.92 percent in FY 1997 from 1.44 percent in FY 1996, a 36 percent decline. Ginnie Mae will continue to monitor issuers through the Issuer Portfolio Analysis Database System for unusual fluctuations in portfolio delinquency rates. One of Ginnie Mae's performance measurements is to increase and maintain percentage of multifamily mortgage securitized by 5 percent each fiscal year. Ginnie Mae increased its multifamily securitization percentage rate of FHA-insured dollar volume from 54 percent in FY 1996 to 81 percent in FY 1997.

Ginnie Mae continues to work with FHA, VA and RHS to develop enhancements intended to help expand homeownership opportunities for low-and moderate-income American families. Ginnie Mae's goal during FY 1997 was to increase issuer lending in distressed communities by 10 percent; the actual result was a 12 percent increase in issuer lending in distressed communities. Ginnie Mae will continue to increase its reliance on technology to enhance the efficiency of its MBS Program.

Asset Management Activities

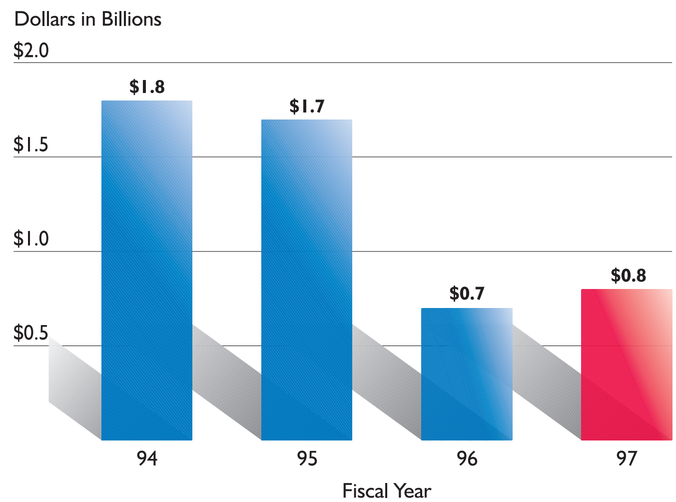
Upon default of an issuer, Ginnie Mae acquires of the issuer's outstanding Ginnie Mae servicing portfolio. Ginnie Mae works to ensure that the servicing of loans collateralizing mortgage-backed securities is maintained and that payment of principal and interest to security holders is made in a timely manner.

Annual Defaulted Unpaid Principal Balance by Portfolio
(In Millions of Dollars)

Portfolio	1994	1995	1996	1997
Single Family	$ 86	$202	$60	$351
Multifamily	32	237	0	0
Manufactured Housing	0	0	0	0
Total	$118	$439	$60	$351

During fiscal year 1997, Ginnie Mae acquired four single-family portfolios with an aggregate principal balance of $350.6 million, representing a $290.9 million increase from the $59.7 million acquired in FY 1996. The multifamily and manufactured housing programs experienced no defaults in fiscal year 1997.

GINNIE MAE
Acquired Servicing Portfolio at End of Fiscal Year



By the end of FY 1997, Ginnie Mae had an acquired servicing portfolio of $827 million, compared to $686 million in FY 1996. The $141 million increase was due to the four single-family acquisitions that Ginnie Mae experienced, offset by normal amortization of principal.

Ginnie Mae services defaulted issuers' portfolios until such time as the servicing rights can be packaged and sold through an open and competitive bid process to approved Ginnie Mae issuers. Ginnie Mae works to bring a Ginnie Mae-held portfolio to a positive net present value before conducting a sale.

During FY 1997, the single-family acquired portfolio increased by 92.1 percent to $606.7 million. Overall, the single-family acquired portfolio represents 0.12 percent of the total single-family remaining principal balance (RPB) outstanding for the Ginnie Mae MBS program, an increase of 0.05 percent from 1996.

For the third year, Ginnie Mae experienced no multifamily issuer defaults. By year end, Ginnie Mae had liquidated the remaining balance of its acquired multifamily portfolio.

The manufactured housing acquired portfolio experienced a 33.7 percent decrease during the year to $220.3 million at year end. The decrease was primarily a result of normal program operations including loan payoffs and other liquidations. Overall, the manufactured housing acquired portfolio represents 15.8 percent of the total manufactured housing RPB outstanding, a decrease from 18.9 percent in 1996.

Ginnie Mae Multiclass Program

During FY 1997, Ginnie Mae guaranteed $7 billion in Real Estate Mortgage Investment Conduit (REMIC) securities. This was Ginnie Mae's fourth year in the REMIC market, and Ginnie Mae continues to improve its competitiveness in the government backed REMICs market. REMICs have reclaimed their role as an important tool for investors to manage mortgage cash flows. Ginnie Mae expects that the demand for Ginnie Mae REMICs will continue to experience growth due to the improved liquidity of the security.

The Ginnie Mae Platinum Program facilitates the combination of smaller, less liquid pools of MBS into larger Ginnie Mae Platinum securities. In FY 1997, $20.8 billion in Ginnie Mae Platinum Securities were issued. The Ginnie Mae Platinum Program, which is the industry standard for large MBS pools, should also continue to be a major Ginnie Mae product. Ginnie Mae's performance measurement on the multiclass was to increase revenue on security credit enhancement by 10 percent in FY 1997. Ginnie Mae increased multiclass revenue by 12 percent in FY 1997. Ginnie Mae expects to continue its strong issuance volume for Multiclass Securities and to meet demand for new security products.

Increase Availability of Affordable Housing in Standard Condition to Families and Individuals, Particularly for the Nation's Poor and Disadvantaged

This section covers:

Section 8 Lower Income Rental Assistance Program

Operating Subsidies, Grants, and Loans to Housing Agencies

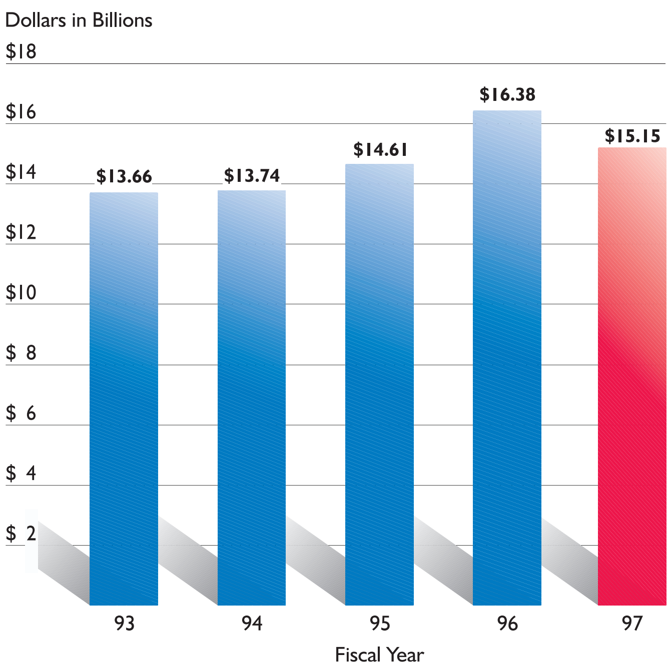
HOME Investment Partnerships Program

Multifamily Housing Programs

Section 8 Lower Income Rental Assistance Program

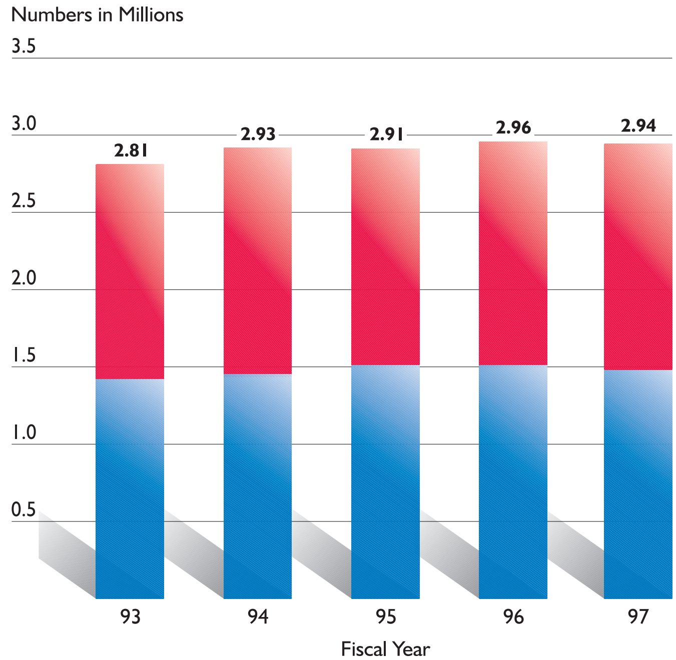
The Section 8 Lower Income Rental Assistance Program assists low and very-low income families in obtaining decent, safe and sanitary housing at rents they can afford.

Section 8 Program Expenses



Section 8 programs are classified as either tenant-based or project-based.

Section 8 Housing Units Eligible for HUD Assistance
as of September 30th



	93	94	95	96	97
Tenant Based	1.39	1.48	1.40	1.45	1.46
Project Based	1.42	1.45	1.51	1.51	1.48

Project Based   Tenant Based

The tenant-based program's objective is to enable low and very-low income families to afford decent, safe and sanitary housing. Under these programs, HUD enters into contracts with the housing agencies (HAs), which administer the programs. The HAs then provide either rental certificates or rental vouchers to eligible tenants.

Rental certificates and vouchers allow families to rent a housing unit of their choice. For certificates, the amount of assistance is determined by the difference between what the family can afford and the rent for the unit. For vouchers, the amount of assistance given is the difference between what the family can afford and the approved payment standard for the area.

The project-based program's objectives are to: 1) encourage the construction and rehabilitation of rental units, by tying the subsidy directly to the unit constructed or rehabilitated; 2) stabilize the cash flow of FHA-insured or HUD-held multifamily projects which are in financial difficulty; 3) preserve the low-income use of certain multifamily projects; and 4) facilitate the sale of multifamily projects by providing Section 8 assistance to related units.

The number of project-based units eligible for assistance decreased during FY 1997 due to: expiration of Section 8 contracts; "opt outs," in which project owners opt to cancel their Section 8 contracts and instead, make those units eligible for fair market rents; and replacement of some project-based units with tenant-based units (i.e., units rented by tenants with vouchers or certificates).

Although no new contracts for new construction or substantial rehabilitation activities are being entered into, there are still a number of existing contracts for these projects which require funding for amendments and renewals. Project-based rental assistance is provided directly to multifamily project owners through the following programs:

- *The Preservation Program* provides financial incentives to owners of certain projects in order to preserve units for low-income use. Without these incentives, the low-income use requirement would expire 20 years after the final mortgage endorsement. This program received no appropriation for FY 1997. While no capital grants are available, there is Section 8 Voucher/Certificate funding available for tenants in properties where owners have prepaid their mortgages.

- *Loan Management Set Asides* (LMSAs) are rent subsidies which were given to owners of FHA-insured properties which were experiencing financial difficulties. Beginning in FY 1997, no new appropriations were approved, and only existing LMSA renewals were funded.

- *Property Disposition* provides Section 8 assistance for those multifamily FHA properties being sold by the Department in the private market. In FY 1997, no new Section 8 assistance was provided for multifamily FHA properties being sold.

- *The New Construction/Substantial Rehabilitation Program* allows project owners to obtain financing to construct or rehabilitate a multifamily rental project; HUD then executes long term contracts (20-40 years) to provide the owners with rent subsidies for the lower-income families. These contracts often serve as part of the security for the loan. Current HUD outlays under this program are for existing contracts only; no new authority has been granted since 1983.

- *The Moderate Rehabilitation Program* is administered by the Housing Agencies. The program provides rental assistance to project owners who rehabilitate their properties and lease them to eligible low-income tenants.

Section 8 Obligations

Obligations relating to HUD's Section 8 programs totaled approximately $66.9 billion and $86.1 billion as of September 30, 1997 and 1996, respectively. HUD enters into multi-year contracts with Housing Agencies and Project Owners to provide rental subsidies over the term of these contracts. These obligations consist of the subsidies to be paid by HUD applicable to the remaining terms of these contracts.

A significant portion of these obligations are funded through permanent indefinite appropriations ($47.5 billion and $47.6 billion as of September 30, 1997 and 1996, respectively). These obligations relate to future amounts due under subsidy contracts entered into prior to FY 1988 (primarily relating to the Section 8 and Section 235/236 programs) which operated under contract authority. Contract authority enabled the Department to enter into multiyear contracts, with an annual draw against permanent indefinite appropriations to fund amounts due under these contracts.

Section 8 Mark-to-Market Reforms

One of the most daunting issues which faced the Department at the end of FY 1996 was the impending expiration of Section 8 rental assistance contracts. The number of expiring contracts and the cost of renewing these contracts will grow sharply over the next few years. To meet this challenge, Congress passed legislation that provides for a "mark- to-market" program to reduce the costs of over-subsidized Section 8 multifamily housing properties insured by FHA.

Under the "mark-to-market" program, FHA-insured Section 8 housing properties with above market rents are eligible for debt re-structuring to reduce rent levels to those of comparable market rate properties or to the minimum level necessary to support proper operations and maintenance. In response to limitations with HUD capacity, the legislation shifts the administration and management of this portfolio from HUD to entities, termed Participating Administrative Entities (PAEs), charged with protecting the affordable housing stock in a fiscally responsible manner. Additionally, the legislation terminates the government's relationship with owners who fail to comply with Federal requirements and ends the practice of subsidizing properties that are not economically viable.

While the act includes extensive guidance on the selection of PAEs, development and submission of portfolio restructuring agreements covering the insured and subsidized mortgages, and determination, from a number of alternatives, of the best methods to restructure the project mortgage and subsidies, the Secretary is charged to develop additional regulations, rules and procedures to implement the program.

The impact of these proposals would vary from project to project depending on such factors as the financial and physical condition, size and timing of subsidy changes, and local market conditions. In addition, final costs to FHA of these additional claims would depend upon the methods used to restructure project mortgages or to minimize the actual transfer of the mortgages or properties to FHA ownership, and the methods used to dispose of any mortgages or properties assumed in a timely fashion. The claims which would result almost all relate to insurance issued prior to 1991. FHA has available permanent indefinite appropriation authority to pay these claims. FHA has provided reserves to reflect the estimated impact on insurance claims as discussed in the footnotes to the financial statements.

Section 8 Material Weaknesses

The Department has three Section 8 material weaknesses: Section 8 Bond Refundings, Payment of Excess Rental Subsidies, and the Section 8 Subsidy Payment Process. Final actions are underway to close the material weakness relating to Section 8 Bond Refundings. A notice to implement new refunding procedures was issued during the year, and the paperwork to close this material weakness should be completed in FY 1998.

The Department's Section 8 rental subsidies are based on the amount of income reported by tenants. To the extent that tenants underreport their income, the Department pays excess subsidy. The Department is considering ways to mitigate the payment of these excess subsidies and to collect excess subsidies already paid. However, as of the date of this report, no specific policy or procedures had been determined.

The third Section 8 material weakness is the lack of a process to verify the support for the monthly payment of project-based Section 8 subsidies, first identified in FY 1993. Initially the Department was going to modify its systems to determine the amount of project-based subsidies to be paid to project owners, rather than basing the payment on a paper voucher provided by the project owners. However, the Department has subsequently decided to have a limited number of intermediaries review the project owners' subsidy requests. In this manner HUD can deal with a relatively small number of entities to ensure that the payments to the project owners are correct. Details of this process, including timeframes, are still being worked out within the Department.

Determination of Excess Rental Subsidies

Because the amount of rental subsidies paid on behalf of a tenant is based on that tenant's income, the failure of a tenant to report all income to the program administrator and of the program administrator to properly certify tenants results in the Department paying excess rental subsidies. This issue applies to the Department's Section 8 and Low Rent public housing programs.

During FY 1997 and FY 1996, the Department selected from its household databases, a statistical sample of Section 8 and Low Rent public housing households, and computer matched their income against income information maintained by the Internal Revenue Service and the Social Security Administration. The results of this sample, extrapolated to the entire population of subsidized households, indicated that excess subsidies paid during calendar year 1996 (the most recent year in which information was available for computer matching purposes) totaled \$939 million ± \$184 million, and excess subsidies paid during calendar year 1995 totaled \$538 million ± \$161 million. The databases from which these statistical samples were drawn comprised approximately 80 percent and 76 percent of all households receiving housing assistance during calendar years 1996 and 1995, respectively. Since these databases do not include all households receiving subsidy, extrapolating these sample results to the entire population of households cannot be done with statistical validity. Additional information on this issue can be found in Note 14 to the financial statements.

The phrase "excessive rental subsidies" does not necessarily equate to budgetary reductions that could be achieved by eliminating the excessive rental assistance. HUD's budgetary needs are affected by many variables not recognized in the above estimates.

Operating Subsidies, Grants, and Loans to Housing Agencies

There are approximately 3,173 public housing agencies (PHAs) and 233 Indian housing authorities (IHAs) (collectively called Housing Authorities or HAs) across the nation. They manage approximately 1.4 million housing units that are homes for some 3.3 million persons. HUD provides funding to HAs through the following programs:

- **Operating Subsidies** are financial subsidies provided directly to HAs, based on a formula calculating the allowable expense level (AEL) for each HA. HUD provides a subsidy to make up the difference between the AEL plus utility costs and the HA's rental and other income.

- **Low Rent Public Housing Grants** assist HAs with the upkeep of housing units and increase the housing stock; HUD also provides grants for modernization/ rehabilitation of existing housing units and for development activities to demolish obsolete housing and/or to acquire or construct additional housing units.

- **Low Rent Public Housing Loans** were used, prior to FY 1986, by HAs to obtain loans from the private sector and from the Federal Financing Bank to finance the development and rehabilitation of low rent housing projects. HUD has assumed repayment of these loans and, accordingly, pays the annual debt service costs.

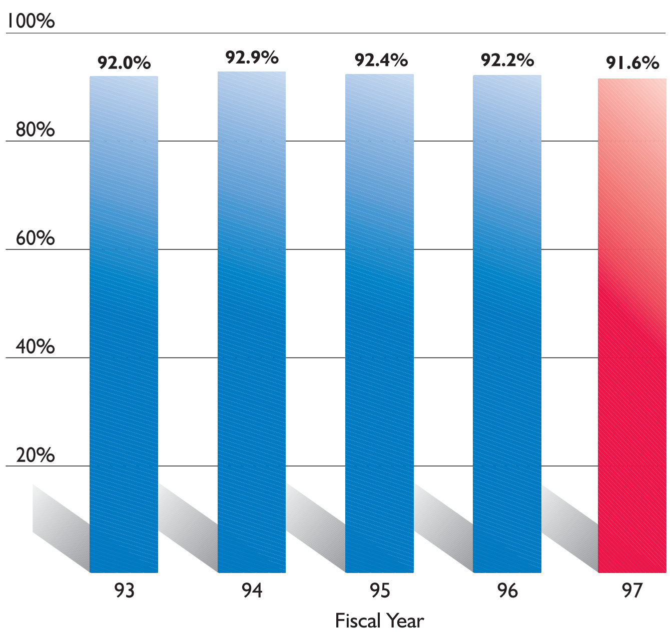
Expenses for Operating Subsidies and Low Rent Grants and Loans
(Dollars in Billions)

	93	94	95	96	97
Operating Subsidies	\$2.51	\$2.62	\$2.74	\$2.81	\$2.82
Low Rent Grants	2.64	3.40	3.82	3.88	3.80
Low Rent Loans	0.58	0.50	0.46	0.34	0.49

Public Housing Units Occupied

The percentage of available public housing units occupied represents the extent of available housing units being lived in. The ideal rate would be 100% but is not attainable due to the time periods when units are unoccupied between move-outs and move-ins of tenants and other factors. A high occupancy rate means that more units are being used for housing and are not sitting vacant. Keeping the occupancy rate high is also important because rent collected from tenants in occupied units is part of the total PHA income used to maintain all available units. As the amount of rental income increases, the amount of HUD subsidy needed decreases accordingly. A relatively minor fluctuation such as the slight decrease from FY 1993 through FY 1997 is not considered statistically meaningful.

Percentage of Available Public Housing Units Occupied



Housing Authority Performance

The Public Housing Management Assessment Program (PHMAP) was established to assess and evaluate the performance of HAs in major areas of public housing operations. HAs are scored on a number of standard criteria, with a total score placing them in one of the following categories:

High Performer: A score of at least 90 percent.

Standard Performer: A score of at least 60 but less than 90 percent.

Troubled Performer: A score of less than 60 percent.

The average PHMAP score for FY 1997 was 88.9 percent, which exceeded the FY 1997 goal of 87 percent and also exceeded FY 1996's average score of 86.5 percent. HUD's renewed emphasis on improving HAs' management practices has resulted in HAs' improving their PHMAP scores. HUD's goal by FY 2000 is an average PHMAP score of 88.5 percent.

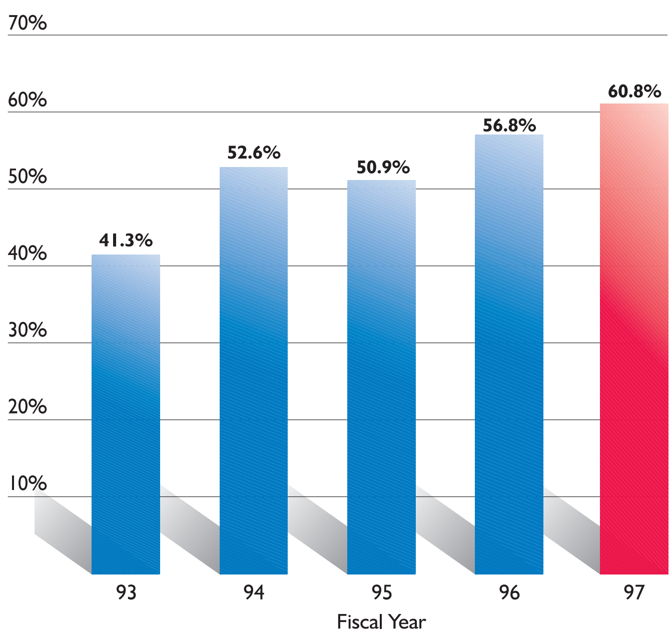
The accuracy of the data used to determine the PHMAP score is dependent on timely data submission by housing authorities and data entry by field office staff. It is likely that, when the information was extracted from the databases and reports, some of the data had not yet been received or entered into the system, which would introduce some inaccuracy in the reported results.

High Performers

High Performers are PHAs with an assessed performance score of 90 percent or higher. Increasing the number of high performers is important to assure that funds are being used effectively and efficiently, housing units are maintained in a decent, safe and sanitary manner, and that the number of housing units available for occupancy is maximized.

High performers generally have a higher percentage of units occupied, the units are in better condition, there is a higher level of resident satisfaction, and the HAs are generally in better financial condition (e.g., the amount of operating funds in a reserve account is at the appropriate level). High performers also provide a service in being a resource to other HAs for technical assistance and to HUD for insight into improved management procedures and commenting on proposed legislation and regulations.

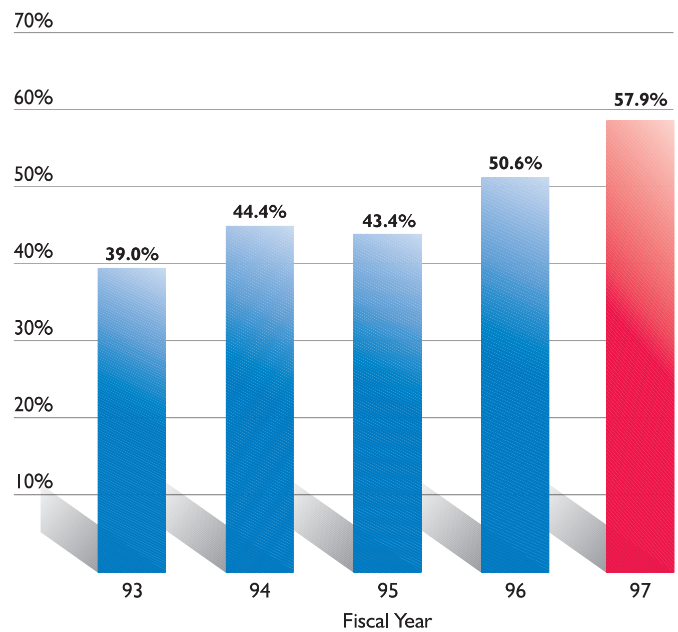
Percentage of PHAs That Are High Performers



There is a significant increase from FY 1993 to FY 1997 in the percentage of high performers with a corresponding decrease in the percentage of standard performers and a slight decrease in the percentage of troubled performers. This means that a number of HAs improved their rating from standard to high performer over this period. There are many factors that influence the number of high performers and the housing units managed by them, including the collective efforts of HUD and HA staff, technical assistance providers, and long-term management improvements.

The number of housing units managed by an individual PHA varies from a few units to tens of thousands. It is desirable to have a high percentage of housing units managed by high performers, since the high performers can do a better job of managing housing units.

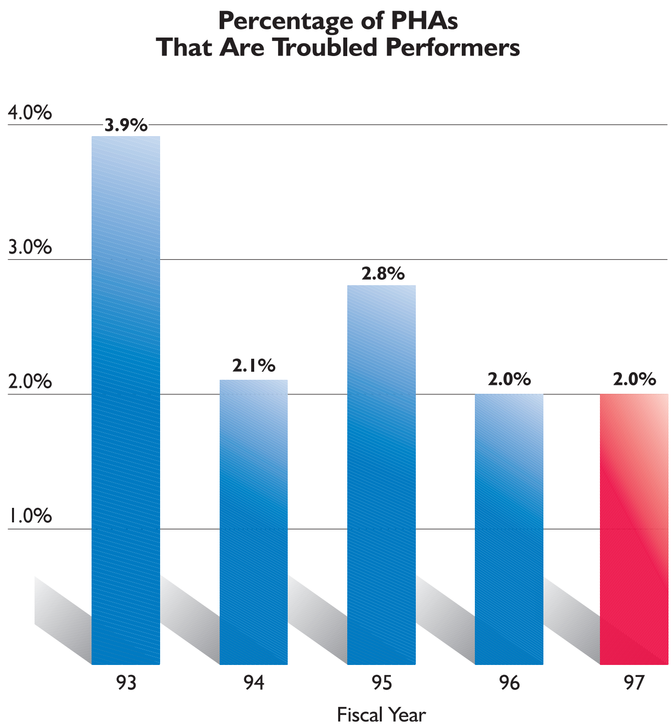
Percentage of Housing Units Managed by High Performers



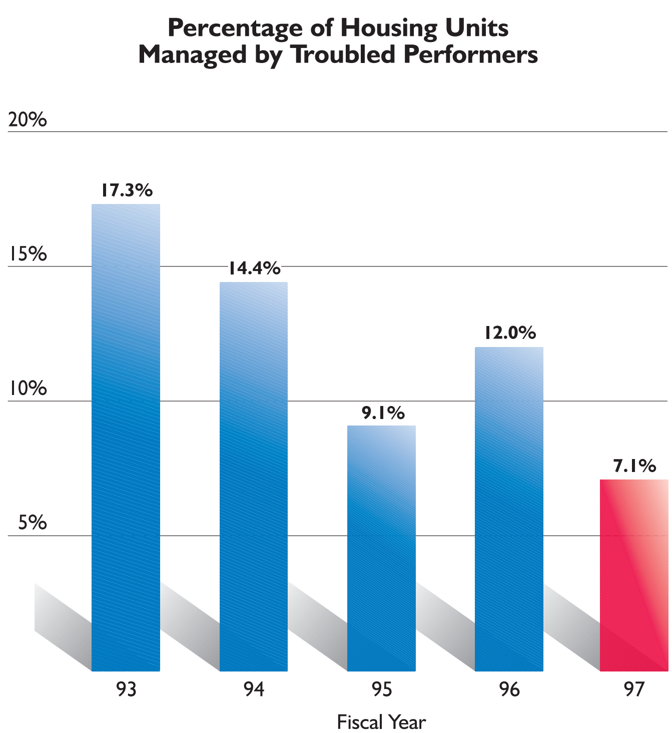
Since a relatively small number of HAs manage a large number of housing units, there is no direct relationship between the percentage of HAs classified as high performers and the percentage of housing units they manage.

Troubled Performers

Troubled performers are those with a performance score of less than 60 percent. It is important to reduce the number of troubled PHAs to minimize the number of poorly managed housing units, thus increasing the number of housing units that are well managed. This indicator also provides a basis for determining the type and extent of HUD technical assistance needed by the PHAs and where such resources should be focused.



The percentage of housing units managed by troubled performers has decreased from FY 1993 through FY 1997.



As previously stated, a small percentage of all HAs manage a large percentage of all HA housing units. Accordingly, there is no direct relationship between the percentage of HAs in any given classification and the percentage of housing units they manage. The five year trend has been favorably downward (to 7.1% in FY 1997 from 17.3% in FY 1993). This change shows the results of HUD's increased efforts over the last five years in working with troubled HAs to address their management and operating difficulties. This indicator contributes to the determination of where HUD technical assistance resources are most needed.

Reducing the Number of Distressed Public Housing Units

Since 1994, a shift in strategy has taken place with the repeal of the "one-for-one" replacement rule requiring one replacement housing unit for every housing unit demolished or disposed of due to its obsolescence or distressed condition. The number of units actually demolished or disposed of prior to 1994 was minimal, due to the limited funding available for new developments and the purchase of public housing units. Over the years, the number of housing units boarded up or otherwise deemed uninhabitable continued to increase as the cost for refurbishment exceeded replacement costs, and replacement housing funds were generally unavailable.

The accumulated number of obsolete or distressed housing units has now become a focus of renewed efforts to revitalize neighborhoods and remove the blight associated with the boarded up housing units. The demolished units are being replaced with lower density housing, and housing certificates and vouchers are being provided to allow tenants to obtain private sector housing.

For FY 1997, a goal of 20,000 public housing units approved for demolition was established. The actual number of approvals was 20,534. The cumulative total of approvals through FY 1997 is over 62,000 units, which indicates HUD is on track to achieve its' goal of approving 100,000 units for demolition by FY 2000.

For actual demolition of public housing units, the goal is to demolish 100,000 units by FY 2003. Through FY 1997, a cumulative total of 23,483 units have actually been demolished, of which 8,483 units were demolished in FY 1997. It is taking a long time for PHAs to actually demolish units after they get approval from HUD, because they must then: (a) get approvals from the local authorities (first the mayor or city manager, then the local council members, and then the appropriate zoning and administrative offices); (b) relocate the tenants; (c) do the hazardous waste abatement; and finally (d) demolish the units. Because so many units which have been approved for demolition but are not yet demolished are in this pipeline, HUD expects that the number of demolitions will dramatically increase by FY 1999.

HOME Investment Partnerships Program

The HOME Investment Partnerships Program provides funds to State and local governments to address their affordable housing needs. HOME encourages public-private partnerships by providing incentives to for-profit and non-profit developers for production of housing for low-income households. Eligible activities include the acquisition of existing housing; reconstruction and rehabilitation of substandard housing; construction of new housing, assistance to new home buyers, demolition and site improvements; and tenant-based rental assistance. All families assisted by HOME must be low-income, defined as those with an income at or below 80 percent of the area median. Deeper targeting is required for rental housing.

Outlays for this program have increased each of the last three fiscal years. The increases reflect the higher funding levels since Fiscal Year (FY) 1995 and increased capacity of the participating jurisdictions (PJs) to utilize funds. Outlays were an estimated $1.165 billion in FY 1997, $1.039 billion in FY 1996, and $1.044 billion in FY 1995. In FY 1997 and FY 1996, every dollar of HOME committed funds leveraged an estimated $2.02 in other resources.

HOME Program Commitment Rates

HOME program commitments by participating jurisdictions (PJs) for housing units have increased rapidly. The increase corresponds to the higher levels of funding beginning in FY 1995 and increased capacity of the PJs and their nonprofit and for-profit partners to utilize the funds. Experience over the last three fiscal years has shown that:

- At the end of FY 1997, an estimated $4.8 billion had been committed for an estimated 275,876 units and rental assistance for 30,724 families.
- At the end of FY 1996, $3.6 billion had been committed for 215,155 units and rental assistance for 28,266 families.
- At the end of FY 1995, $2.6 billion had been committed for 153,212 units and rental assistance for 19,148 families.

HOME Program Commitment Rates in Percent

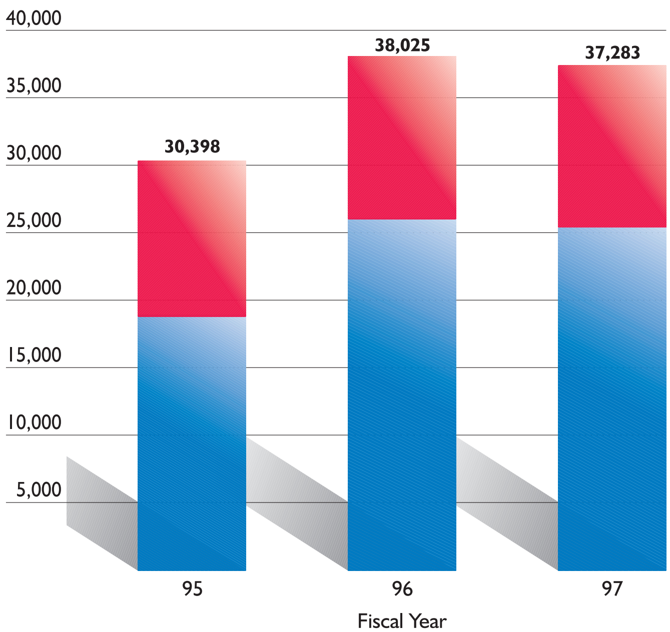
	95	96	97
FY 1995 Funds	4.0	63.9	93.0
FY 1996 Funds	n/a	12.4	66.7
FY 1997 Funds	n/a	n/a	16.8

Homeownership and Rental Assistance

The HOME program provides assistance for both homeowners and renters. In FY 1997, the HOME program assisted an estimated total of 63,179 households compared to 71,061 in FY 1996 and 67,327 in FY 1995. The decrease from FY 1995 to FY 1997 is due primarily to a reduction in the number of rental households assisted. Further discussions concerning assistance for home ownership and rental assistance are provided below.

Homeownership assistance for both new and existing homeowners in FY 1997 was provided to an estimated 37,283 households. In FY 1996, the number was 38,025 homeowners, a 25 percent increase over FY 1995, when the program assisted 30,398 new home buyers and existing homeowners. This increase was due to an increase in assistance to new home buyers.

HOME Program
Assistance Provided to Homeowners



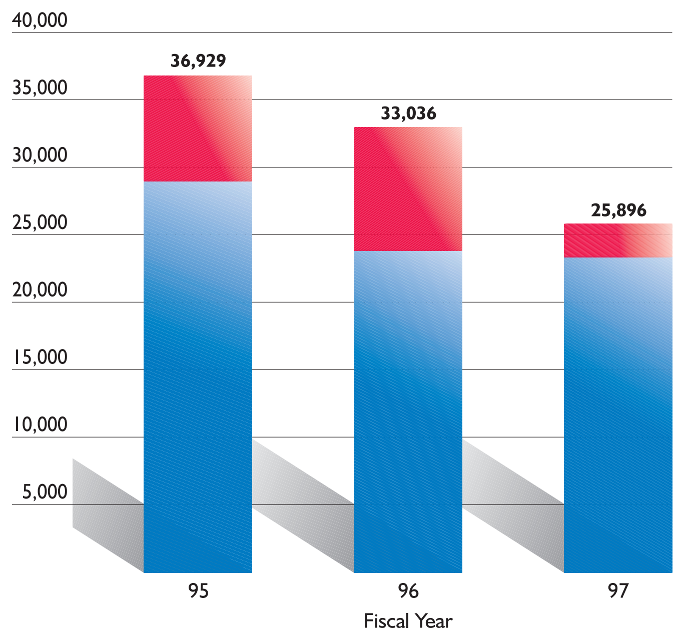
	95	96	97
Existing Homeowners	11,500	12,026	11,962*
New Homebuyers	18,898	25,999	25,321*

New Homebuyers — Existing Homeowners

*estimated

The HOME program also provides assistance to renters through development of rental units and tenant based rental assistance (TBRA). Since FY 1992, the HOME program has consistently provided 98 percent of HOME rental assistance to renters with incomes below 60 percent of the median income. In FY 1997, the program assisted an estimated 25,896 rental households. In FY 1996, this number was 33,036, while in FY 1995, the program assisted 36,929 rental households. This decrease is primarily the result of increased emphasis on use of HOME funds for new homeowners. Although the number of rental households assisted has decreased from FY 1995 to FY 1997, PJs are devoting approximately the same percentage of funds (58 percent) to rental housing.

HOME Program
Assistance Provided to Renters



	95	96	97
Tenant Based Rental Assistance	7,828	9,118	2,458*
Rental Units	29,101	23,918	23,438*

Rental Units — Tenant Based Rental Assistance

*estimated

Multifamily Housing Programs

A fundamental role of the Department is to ensure that Americans of all income levels have access to decent quality housing at a cost that does not drive out spending for food, clothing, and other necessities. In FY 1997, FHA continued to provide financing support for rental housing and health care facilities by insuring multifamily loans and risk-sharing mortgages.

FHA provides mortgage insurance to construct or rehabilitate approximately 100,000 units per year under a variety of rental apartment and health - care programs.

The initial endorsements of 637 insured loans were completed in FY 1997 (163 percent of the performance goal of 392 initial endorsements). FHA basic business, which includes loans for new construction, substantial rehabilitation, and refinancing of apartments and health care facilities, continues to grow. The basic reasons for the increase are the good economy, low interest rates, improved speed of processing, and the increased need for rental housing and health care. The number of loans insured decreased from 664 in FY 1995 to 598 in FY 1996 because 241(f) insured loans (which were a major preservation tool in FY 1995) decreased as the Preservation Program used less expensive direct loans and grants. The goal was revised downward to 392 in FY 1997 because Field Offices set their own targets.

Affordable rental housing was also increased through the risk-sharing partnerships between FHA and participating state and local housing finance agencies. FHA has been successful in attracting quality partnerships, defining clear roles and responsibilities, sharing expertise and obtaining good results. FHA set an FY 1997 target of endorsing 50 risk sharing projects during the year and wound up endorsing 60 projects (120 percent of the goal), compared to 34 in FY 1996 and 11 in FY 1995. In most risk-sharing cases, loans are not insured until projects are completed and rented. The upward trend in Insurance-in-force is just reflecting completion of the pipeline.

The Office of Housing continued to expand the supply of rental housing with supportive services for low income elderly persons and persons with disabilities with capital advances and rental assistance under the Section 202 and 811 programs. Initial closings of 357 projects and final closings of 362 projects were completed in FY 1997. These results exceed Fiscal Year performance objectives. The number of initial closings of 202/811 projects increased from 351 in FY 1995 to 366 in FY 1996, but then decreased slightly in FY 1997. The reason for the decrease of nine projects is that the pipeline is getting cleared and fewer 202/811 projects are getting funded.

The number of final closings of 202/811 projects has risen to 362 in FY 1997 from 275 in FY 1996 and 273 in FY 1995. The rise is because the Field Offices are concentrating on getting the pipeline cleared out.

FHA is discussed in its entirety under the Strategic Objective ***"Increase Homeownership Opportunities."***

Empower Communities To Meet Local Needs

This section contains:

Consolidated Planning Process

Community Development Block Grants:
- *Entitlement Program*
- *Nonentitlement Program*

Section 108 Loan Guarantees

Our mission of creating communities of opportunity requires more than just administering our programs on a day-to-day basis. HUD must take a proactive, leadership role in partnering with America's communities. As we move towards the future of America, we will help communities solve their own problems by:

- Planning and executing housing and community development initiatives that are community-driven;
- Coordinating comprehensive, sustainable solutions to urban problems;
- Streamlining housing and community development programs to make them more efficient and effective;
- Increasing access by and communication between citizens and government at all levels.

Consolidated Planning Process

The key to this objective is the Consolidated Planning Process. The Consolidated Plan/Community Connections system, initiated in 1994, was developed to offer a more comprehensive and rational approach to housing and community development planning. It was an attempt to break down the barriers between four block grant programs totalling over $6 billion annually by allowing communities more flexibility in utilizing different programs in an integrated way to solve local problems. HUD folded 12 different planning, application, and reporting requirements of these four programs into one planning and reporting system, enabling the communities to address their problems more comprehensively.

This approach has been a success. It was one of the 10 projects in the United States to receive a Ford Foundation/Kennedy School of Government innovations award in 1996. Every large city, urban county, and State in the United States undertook a three to five year strategic plan as part of their Consolidated Plan in 1995 or 1996. Annually, every State and entitlement community submits an action plan showing how they are going to spend current fiscal year funds received by formula to carry out the goals laid out in the strategic plan. Some 1,000 Consolidated Plan summaries were placed on the Web for all to see.

Community Development Block Grants

There are many efforts underway to empower communities to meet local needs. The primary one is the Community Development Block Grant (CDBG) program, which was authorized by the Housing and Community Development Act of 1974. This program supports a wide variety of community development activities in cities, counties and States. There are three major components of the CDBG program:

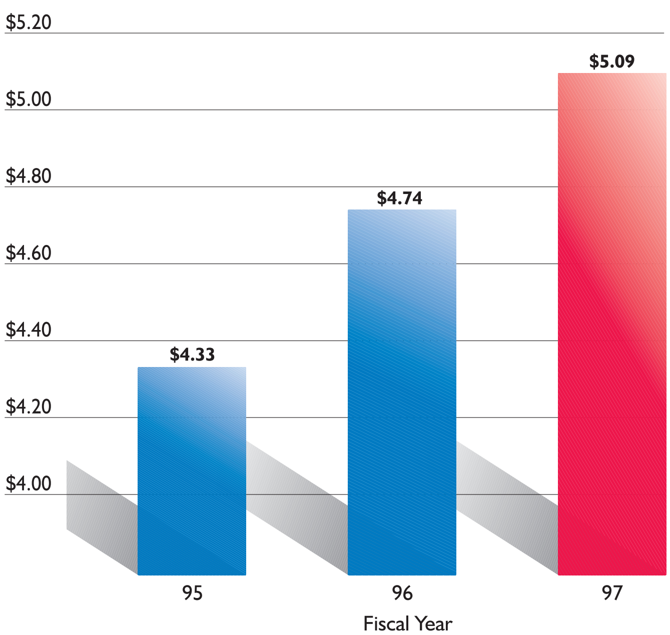
- Entitlements
- Nonentitlements
- Section 108 Loan Guarantees

Entitlement and Nonentitlement Programs

The first two components are the entitlement and nonentitlement programs, which are allocated by formula. The entitlement program provides Federal grants directly to large cities and urban counties. The nonentitlement program funds small communities through their States (State-administered CDBG program) or through competition conducted by HUD (HUD-administered CDBG program.)

Under current law, 70 percent of the CDBG funds are reserved for entitlement community programs, while the remaining 30 percent are for the small community programs. In FY 1997, the estimated amount expended by recipients of CDBG funds was $5.09 billion. In FY 1996, the estimated figure was $4.74 billion, while in FY 1995, $4.33 billion was expended.

Estimated Amount Expended by Recipients of CDBG Funds

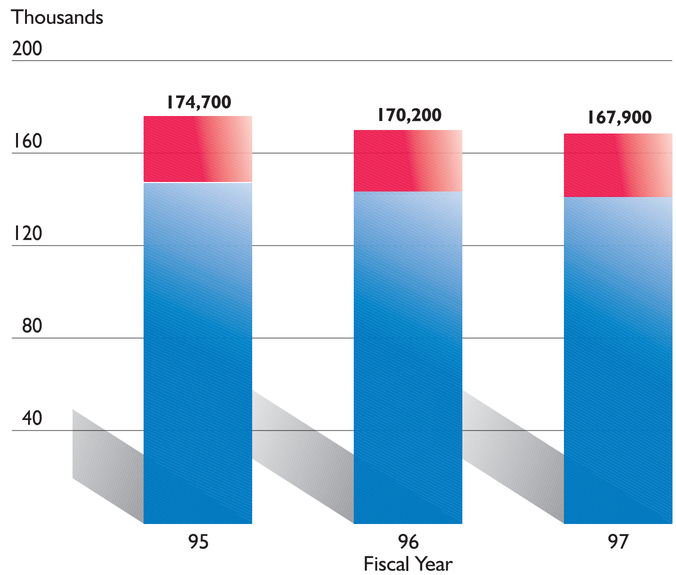


One of the main ways of measuring performance in these programs is to determine the number of households assisted. It is estimated that the total number of households assisted by housing activities for both the entitlement and nonentitlement components was 167,900 in FY 1997, 170,200 in FY 1996, and 174,700 in FY 1995.

Of these totals, the entitlement community program served 140,700 households with housing assistance in FY 1997, 142,600 in FY 1996, and 146,400 in FY 1995. The nonentitlement program assisted 27,200 households in FY 1997, compared to 27,600 in FY 1996, and 28,300 in FY 1995. These estimates were made by dividing the estimated portion of annual funding used for housing assistance by an estimate of the assistance per household (a different per household amount is used for each program).

Total funding for entitlements was $3.017 billion in FY 1997, $3.059 billion in FY 1996, and $3.14 billion in FY 1995. Total funding for nonentitlements was $1.29 billion in FY 1997, $1.31 billion in FY 1996, and $1.35 billion in FY 1995. The number of households assisted is an estimate based on a formula which includes the total amount of annual funding. Since total annual funding has decreased over the last three years, the estimated number of households assisted has also decreased.

CDBG
Number of Households Assisted



	95	96	97
Non-Entitlement	28,300	27,600	27,200
Entitlement	146,400	142,600	140,700

Entitlement   Non-Entitlement

Section 108 Loan Guarantees

The third major component of the CDBG program is a loan guarantee provision (Section 108 Loan Guarantees). This component provides a source of lender financing to CDBG grantees for economic development, housing rehabilitation, public facilities, and large scale physical development projects. In FY 1997, loan commitments were $278 million compared to $434 million in FY 1996 and $1.84 billion in FY 1995. This downward trend is due to the fact that there is a direct relationship between the level of loan commitments and the level of funding for the Economic Development Initiatives (EDI) and Empowerment Zones (EZ). When funding decreases for EDI and EZ, as has occurred over the last three years, the level of activity for loan commitments also decreases.

Help Communities and States Establish a Full Continuum of Housing and Services Designed to Assist Homeless Individuals and Families in Achieving Permanent Housing and Self-Sufficiency

This section contains:

Continuum of Care

Housing Opportunities for Persons with AIDS (HOPWA)

The best approach to alleviating homelessness is a community-based process that responds comprehensively to the varying needs of homeless individuals and families. A comprehensive and coordinated housing and service delivery approach helps communities plan for and execute that balanced response.

Continuum of Care

HUD works with communities to help establish cost-effective "Continuum of Care" (COC) systems in which gaps in the housing and services needed to move homeless families and individuals into permanent housing are identified and filled. The COC is an inclusive process that coordinates the energy and experience of non-profit organizations, State and local governmental agencies, housing developers and service providers, private foundations, local businesses and the banking community, neighborhood groups, and homeless and formerly homeless persons.

Each year communities submit applications to HUD requesting COC funding. Included in the application is a description of the community's COC approach for alleviating homelessness.

One way of measuring success in the COC program is to determine the percentage of the U.S. population represented by communities which have developed COC systems. For FY 1997 and 1996, the actual percentage of the U.S. population represented by communities which had developed COC systems was 80 percent. The percentage remained constant because the demand for participation in the COC program far exceeded the available funding, thereby limiting the possibility of funding new communities.

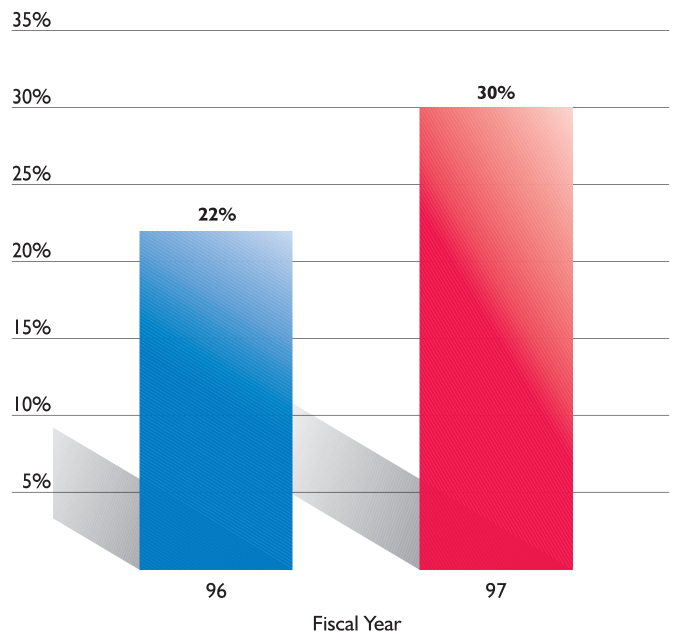
A COC system includes the following components: outreach and assessment; emergency shelter; transitional housing with appropriate supportive services, and permanent housing (with or without supportive services).

Transitional housing with supportive services offers homeless people the time, place, and services to overcome many of the circumstances that led to homelessness in the first place. A mark of success in the transitional housing component is the national number of HUD-funded transitional housing beds (which allow people to be housed for up to 24 months and receive supportive services which help them become self-sufficient). The number of transitional housing beds linked to supportive services is estimated to be between 109,000 and 115,000 in FY 1997, compared to 109,000 in FY 1996. The increase is not greater because the inventory has been building over ten years now and because renewal grants consumed such a large part of the FY 1997 competitive awards.

Permanent housing is another major component of the COC. It provides for permanent housing with needed supportive services, primarily for people who are both homeless and disabled. It provides a valuable alternative to the revolving door of relatives, friends, institutions, and the streets. Performance is measured by the national number of HUD-funded permanent housing beds (for which there are no time limits on duration of stay) funded through the Supportive Housing, Shelter Plus Care, and Section 8 Moderate Rehabilitation Single Room Occupancy programs. It is estimated that the national number of permanent housing beds furnished in FY 1997 was 55,000 to 56,500, compared to 55,000 in FY 1996. There is very little increase in FY 1997, because the HUD-supported inventory of permanent housing has been accumulating over a period of ten years; renewal grants comprised a very large share of all FY 1997 funding; and the demand for permanent housing assistance, in comparision with other forms of assistance, was very low.

Each year, a number of people leave transitional housing and move to some form of permanent housing, whether that be HUD-assisted or not. The percentage of people leaving transitional for permanent housing provides an indication of how successful HUD has been in providing individuals with a more permanent housing situation. In FY 1997, the percentage of persons leaving transitional housing for permanent housing was estimated to reach the 30 percent level, compared to 22 percent in FY 1996. This considerable increase is due, in part, to the concentrated efforts of the COC program.

Percentage of Persons Leaving Transitional Housing for Permanent Housing



Another critical element in a community's efforts to successfully implement a COC is their ability to provide supplemental resources (i.e., non-Federal funds) to the Federal funds awarded through the COC application process. HUD strives to ensure that at least $1 is leveraged for every $1 of HUD McKinney Act Homeless funds awarded. This element, presented in the form of a ratio, identifies the level of resources committed by communities compared to HUD funds awarded. The ratio for FY 1997 and FY 1996 was over 1 to 1.

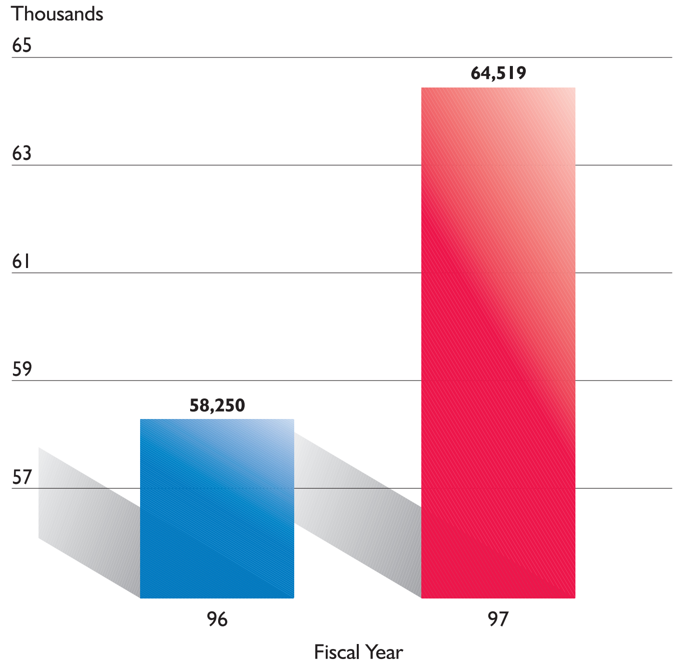
Housing Opportunities for Persons with AIDS (HOPWA)

The HOPWA program is designed to meet the housing and supportive service needs of low-income individuals with AIDS or HIV and the needs of their families. This program is authorized by the AIDS Housing Opportunity Act as amended by the 1992 Housing and Community Development Act. Funds are distributed to States and localities that have devised long-term strategies for meeting the housing and supportive needs of eligible persons in connection with area Consolidated Planning efforts. The program provides both formula and competitively awarded grants to States, local governments, and nonprofit organizations. These organizations carry out a range of eligible activities, including housing development, operation of facilities, rental and technical assistance, supportive services, and administrative costs.

The budget authority for HOPWA was $196 million in FY 1997 and $171 million in FY 1996. Ninety percent of the annual HOPWA appropriation is distributed by formula allocations to States and cities in metropolitan areas that have the largest number of AIDS cases. In FY 1997, a total of $176.4 million in formula funds was provided to 80 communities, including 53 cities and 27 States. In FY 1996, a formula allocation of $153.9 million went to 76 communities, including 49 cities and 27 states. The remaining 10 percent of HOPWA's appropriation is distributed through a competitive process. In FY 1997, funding for competitive grants was $19.6 million. In FY 1996, this funding was $17.1 million.

One measure of performance in the HOPWA program is the number of units and persons receiving assistance. In FY 1997, it is expected that approximately 35,845 units and 64,519 persons will be provided assistance. In FY 1996, these numbers were estimated to be 32,200 and 58,250, respectively. The number of persons receiving assistance includes family members living with persons having AIDS.

Estimated Number of Persons Receiving HOPWA Assistance



An analysis of these numbers, broken down by types of assistance, allows further measurement regarding the performance of the HOPWA program. One such analysis shows the increase in the number of short-term housing units (or beds) with supportive services that eventually allow the client to maintain or access permanent housing at the completion of the short-term program. In FY 1997, this number was 22,750, which is an increase of 2,250 units or 11 percent over the FY 1996 figure.

Also significant is the increase in the number of housing units (or beds of supportive housing). In FY 1997, the number of units was 13,195, an increase of 1,495 units or 13 percent over FY 1996.

HOPWA - Types of Assistance	Number of Units		Number of People	
	1996	1997	1996	1997
Rental Assistance (1-3 years)	6,000	6,825	7,500	8,554
Short term rent, mortgage and utility payments to prevent homelessness, and short term facilities	20,500	22,750	25,625	28,210
Community residences, Single Room Occupancy dwellings, and other facilities with construction rehabilitation, acquisition, and operation costs and services	5,700	6,270	7,125	7,735
Other services, including supportive services, housing information and technical assistance to non-profit organizations	—	—	18,000	20,020
Total	32,200	35,845	58,250	64,519

Provide Empowerment and Self-Sufficiency Opportunities to Support Low-Income Individuals and Families as They Make the Transition from Dependency to Work

This section contains:

Neighborhood Network Centers

Community Development Block Grants

Economic Development Initiatives

Section 108 Loan Guarantees

The Department is working with community organizations, States, cities, and other Federal agencies to effectively implement this objective. The Department proposes an initial four-pronged action plan to begin implementing the Personal Responsibility and Work Opportunity Reconciliation Act of 1996:

- Creation and retention of jobs;
- Using tenant-based rental assistance strategically to link welfare recipients to jobs through innovative uses of incremental housing assistance and regional counseling;
- Coordinate housing assistance with Welfare Reform efforts; and
- Providing and leveraging services to help welfare recipients make the transition from dependency to work through expansion of the Bridges to Work initiative, funding for Public Housing Supportive Services, expansion of Neighborhood Networks learning centers in assisted housing, and the Youthbuild program to provide access to education and job training.

HUD is in a unique position to assist in helping people move from welfare to work. Through public housing, Section 8, and CDBG target areas, HUD programs have a physical presence where the poor live. HUD programs provide flexible assistance capable of effecting different interventions that may be necessary to promote self-sufficiency. HUD can both provide the assistance needed to create and retain jobs and provide the training and other services that lower income individuals need to be able to take advantage of those jobs. Flexible formula grants, like CDBG, let communities take advantage of more restricted funding provided by other agencies. CDBG, for example, can fund local plans for promoting self-sufficiency. It can also fund services that may be needed to help people take advantage of opportunities provided by other agencies.

Neighborhood Network Centers

Neighborhood Networks (NN) were established at the end of FY 1995 to enhance the self-sufficiency, employability, and economic self-reliance of low-income families and the elderly living in HUD-insured and -assisted multifamily properties. The first year (FY 1996) was mostly a start-up year, with over 100 NNs entering the approval process with 58 actually opening. FHA planned to open 106 Neighborhood Network Centers during FY 1997. However, with major priority assigned to the effort by a number of multifamily field offices, FHA successfully achieved this objective by opening 232 Centers (219 percent of the performance goal). There are approximately 800 more in various stages of processing.

These Centers provide the residents of the properties and the community which surrounds them with onsite access to computer and training resources. The facilities are designed, implemented, and operated by owners and tenants, with the assistance of FHA. The Centers can provide the residents with:

- Early childhood educational programs;
- Adult educational opportunities at the high school, vocational, community college, and university levels;
- Typing, word processing, and computer skills;
- Personal and job training software;
- Access to job data banks;
- Microenterprise development opportunities; and
- Participation in online civic and government forums.

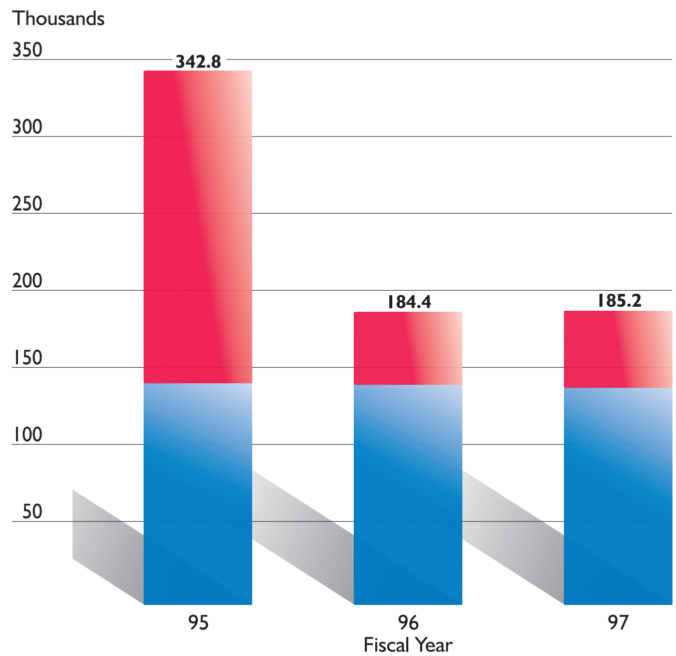
Linked to the world as never before, disadvantaged groups can gain access to opportunities and ideas that will empower them to participate more fully in our nation's economic, social, civic, and government life.

This initiative also enhances the effective asset management of FHA's multifamily portfolio by improving the value of FHA-insured properties.

CDBG, Section 108, and EDI

The Community Development Block Grant (CDBG) entitlement, non-entitlement, economic development initiatives (EDI), and the Section 108 loan guarantee programs are designed to help stimulate economic activity in distressed areas. These programs will leverage billions of dollars in additional public and private investments, creating additional jobs in States and communities receiving such funding. Using available statistical data, it is estimated that 185,200 jobs were created by these different programs in FY 1997, as compared to 184,400 jobs in FY 1996 and 342,800 in FY 1995.

Estimated Number of Jobs Created



	95	96	97
Section 108 and EDI	201.1	46.4	49.0
CDBG	141.7	138.0	136.2

CDBG   Section 108 and EDI

The number of jobs created is an estimate based on a formula which uses funding (in the case of CDBG) and loan commitments (in the case of 108 and EDI) as its starting point. As discussed under the section entitled *"Empower Communities to Meet Local Needs,"* total funding for CDBG entitlements and non-entitlements has dropped slightly from FY 1995 to FY 1997, resulting in a slight decrease in the number of CDBG jobs created. And as mentioned in *"Empower Communities to Meet Local Needs,"* the loan commitments for 108 and EDI have dropped from over $1.8 billion in FY 1995 to less than $300 million in FY 1997, which has produced a corresponding decrease in the number of 108/EDI jobs created.

HUD awards grants to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons. Each grantee develops its own program and funding priorities but must involve its citizens in the process. Development of its priorities is the core element of HUD's Consolidated Planning process for a formula grantee.

Each grantee must certify that CDBG funds are used for activities that:

- Benefit persons of low- and moderate-income (at least 70 percent of all funds must fall into this category, as measured over a one-to-three year period selected by the grantee);

- Aid in the prevention or elimination of slums and blight; or

- Meet an urgent community development need that poses a serious and immediate threat to community health or welfare where other financial resources are not available.

CDBG considers compliance with the 70 percent requirement to be one of its major performance measures. The grantee must certify in its Consolidated Plan submission that it is complying with this requirement. Verification of compliance is performed by a close review of the plan and through the monitoring activities of field staff. The most recent reviews showed that, over the last two fiscal years, approximately 94 percent of CDBG funds expended by entitlement communities benefited low- and moderate-income persons.

Promote Equal Housing Opportunities for Those Protected by Law

This section contains:

Fair Housing Enforcement

Enforcement Initiatives

Program Compliance

Voluntary Fair Housing Programs

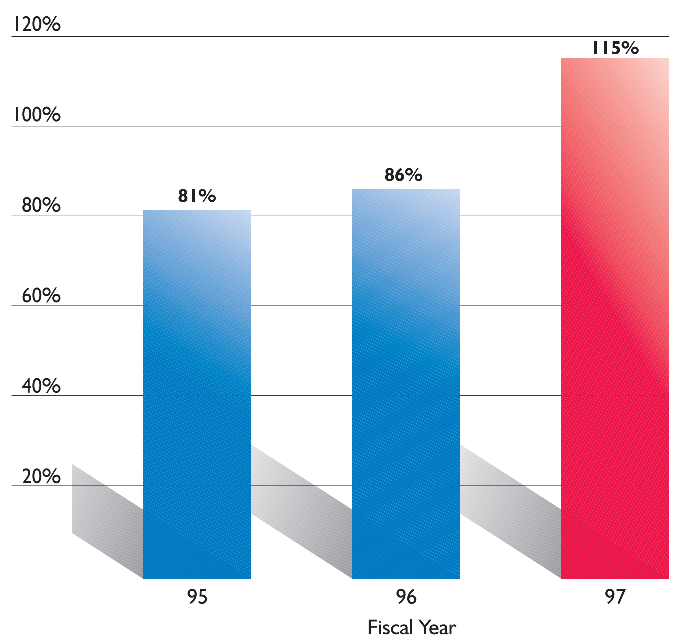
The mission of HUD's Office of Fair Housing and Equal Opportunity (FHEO) is to enforce the Fair Housing Act and other civil rights laws by taking proactive steps to identify and combat discrimination in both its most obvious and more subtle forms and to ensure the right of equal housing opportunity and free and fair housing choice without discrimination based on race, color, religion, sex, national origin, disability or family composition. The business objectives for FHEO are designed to enforce the non-discrimination requirements of the Fair Housing Act and other civil rights laws; take proactive steps to assure that HUD programs are delivered in a nondiscriminatory manner; and affirmatively further fair housing in HUD programs and provide leadership for affirmative programs carried out by other Federal Departments and Agencies. These goals are carried out by:

- Reducing discrimination in housing through aggressive enforcement of civil rights and fair housing laws, the promotion of substantial equivalency among State and local governments enforcing fair housing laws, and the administration of grant programs;
- Promoting geographic mobility for minority and low-income households;
- Integrating fair housing planning into HUD's Consolidated Plans in order to identify impediments to housing choice; and
- Ensuring that programs of other Federal agencies which affect housing choice also further the goals of the Fair Housing Act.

Fair Housing Enforcement

A major component in achieving the mission is ensuring that civil rights and fair housing enforcement is conducted in the most efficient manner possible. To that end, since 1995, FHEO has engaged in a business process redesign (BPR) evaluation of its enforcement procedures. The resulting redesign of approaches to the fair housing enforcement process impacted several FHEO performance measures. In FY 1997, more complaints were closed than were filed: the number of complaints resolved was 115 percent of the number received. This is an positive increase from 86 percent in FY 1996 and 81 percent in FY 1995.

Percentage of Fair Housing Complaints Resolved



The goal to reduce the administrative closure rate by 5 percent each year has been exceeded: only 14 percent of the complaints were closed administratively in FY 1997, down from 17 percent in FY 1996 and 21 percent in FY 1995. Administrative closures are defined as the routine paperwork involved in closing a fair housing case when an investigation cannot be completed and there is inadequate information to make a determination; or when a complainant has independently decided not to proceed or has lost the right to proceed; or where a trial has commenced pursuant to the provisions of the Fair Housing Act.

The Fair Housing Act prohibits discrimination in housing based on race, color, religion, sex, national origin, disability or familial status. HUD's Fair Housing Initiatives Program (FHIP) helps meet the objectives of the Fair Housing Act by providing funding to public and private entities formulating or carrying out programs to prevent or eliminate discriminatory housing practices. There were 511 complaint referrals from FHIP-funded entities during FY 1997 compared to 293 during FY 1996.

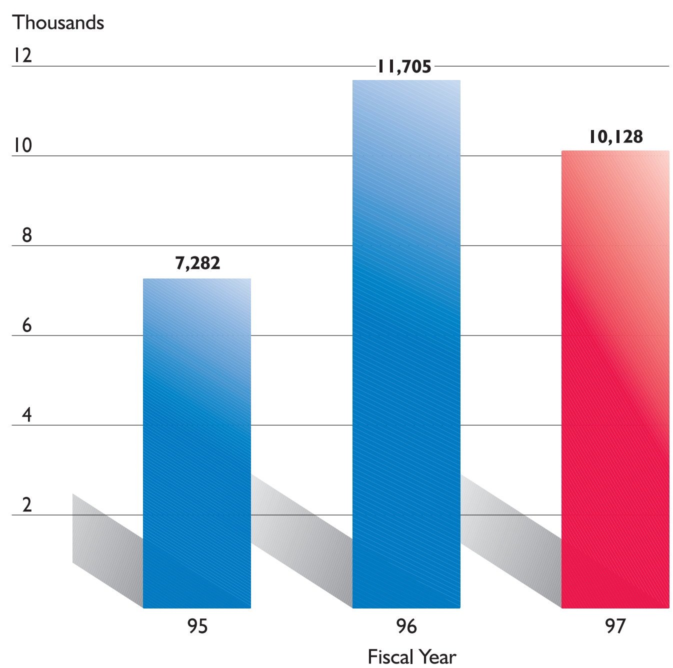
One of HUD's objectives for FY 1997 was to provide additional funding to support the sustainability of new private fair housing organizations. Grants totaling $3.8 million in FY 1997 resulted in support for 13 new fair housing enforcement organizations, of which ten were two year grants. In FY 1996, $3 million was directed toward this effort through 12-to-18 month grants in support for 13 new organizations to provide fair housing services in underserved areas of the country.

Another FY 1997 objective was to fund organizations that assist persons with disabilities, in order to build a capacity to undertake fair housing enforcement activities. Awards totaling $1.35 million were made to seven organizations for this purpose.

Additionally, HUD encourages each fair housing organization to carry out long-term enforcement projects. In FY 1996, 25 organizations were awarded 2-to-4 year Private Enforcement Initiative grants to carry out long-term enforcement projects in their jurisdictions through a $12 million appropriation. In FY 1997, these organizations continue to implement projects under their grants which have resulted in increased enforcement efforts by HUD and its partners. In FY 1997 HUD awarded two year Private Enforcement Initiative grants totaling $10.5 million dollars to 33 organizations, including 10 of the new organizations created with FHIP funding.

The results of enforcement efforts by both HUD and Fair Housing Enforcement Agencies are illustrated by the number of discrimination cases received and closed. During FY 1997, 10,094 cases were received as compared to 10,915 cases in FY 1996 and 8,326 in FY 1995. Beginning in FY 1996, the number of *cases* received reflected a new category of *Claims*. A Claim is a category of a discrimination inquiry that raises issues of discrimination, but which may not be a jurisdictional complaint when fully developed.

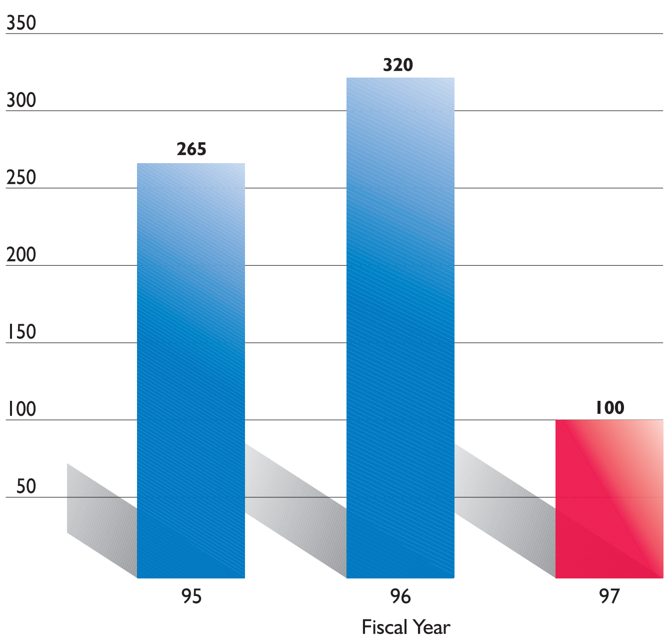
Number of Discrimination Cases Closed



During FY 1997, there were 10,128 cases closed, compared to 11,705 cases closed for FY 1996 and 7,282 for FY 1995. The closures reported include actual closures (Administrative, Conciliation/ settlements, No-cause determinations), Cause determinations and transfers of non-cause cases to the Department of Justice. Some of the closures were cases pending from previous years. The inventory of open pending cases was reduced to 6,893 at the end of FY 1997, from 7,200 cases at the end of FY 1996 and 7,781 cases at the end of FY 1995.

Closures for FY 1997 represented a 15 percent decrease over FY 1996, compared to a 60 percent increase from FY 1995 to FY 1996. This increase from FY 1995 to FY 1996 is directly related to management's decision to significantly reduce the open aged case inventory. During FY 1997, 38 percent of complaint closures were by consensual resolution, as compared to 36 percent in FY 1996, and 45 percent in FY 1995. The lower rates in FY 1997 and FY 1996 were because many of the parties in the older cases had little reason to reach consensus. In addition, because of the large number of older cases being closed, the average time required to close cases decreased to 100 days in FY 1997, as compared to 320 days in FY 1996 and 265 days in FY 1995. After institution of a new case processing system, the average time for case processing dropped in FY 1997.

Average Number of Days Required to Close Cases



Enforcement Initiatives

Victims of housing discrimination recovered $13.3 million in damages from 1993 through 1997. A total of 43 percent of cases were conciliated or enforcement actions were taken during that period.

FHEO also pursues its mission through the sponsorship and/or co-sponsorship of fair housing conferences, research symposia, or administrative meetings. A major area of discussion at such events in FY 1997 was the issue of racial tension. In May 1997, HUD sponsored a national conference for State and local government enforcement agencies and private fair housing organizations in Montgomery, Alabama. HUD, with the National Association of Realtors, has also convened partnership meetings in Florida, Chicago and Baltimore to reach out and precipitate dialogue regarding fair housing issues and concerns important to the local community. The meetings in Miami and Baltimore resulted in two formal partnership agreements between housing industry groups and the local HUD Office.

A HUD/National Association of Realtors partnership meeting in Florida during 1997 was an opportunity to reach out and precipitate a dialogue regarding fair housing issues and concerns important to the local community by additionally hosting their first field Partnership meeting during the 2-day activity. Dialogue is continued through HUD's partnership with mortgage lenders, home builders and other housing industry groups, and State and local civil rights enforcement agencies and community-based civil rights organizations.

FHEO also participated in national conferences of the following housing industry groups: the National Association of Homebuilders, the National Apartment Association, and the National Affordable Housing Management Association.

Program Compliance

HUD endeavors to increase housing choice for HUD-assisted housing recipients through aggressive enforcement of compliance with civil rights statutes in all HUD-funded programs and operations and to mainstream housing opportunities for persons with disabilities. Compliance is achieved through pre-award reviews, compliance reviews of all HUD funded programs, the standardized use of corrective action orders, and other sanctions and the issuance of voluntary compliance agreements. FHEO is undertaking a number of initiatives to achieve this goal, including activities designed to reduce the incidence of segregation based on race and national origin in public and Federally assisted housing by five percent by the end of five years in 50 percent of selected localities where segregation based on race or national origin has been identified as a barrier.

FHEO seeks to obtain reduced levels of segregation with increased Title VI and Section 504 compliance reviews over a five year period. Staff has conducted compliance reviews throughout the fiscal year to assure HUD and recipient compliance with civil rights requirements under Title VI of the Civil Rights Act of 1964 and, Section 504 of the Rehabilitation Act of 1973. FHEO conducted 135 reviews under these statues in FY 1996 and 140 reviews in FY 1997. As a result of such reviews, a large portion of HUD recipients are better informed about Title VI and Section 504, thus increasing the likelihood for increased compliance under these laws in the future with regard to the provision of accessible and desegregated housing.

The Office also has increased the number of Voluntary Compliance Agreements (VCAs) executed under Title VI and Section 504. Ninety VCAs were executed in FY 1997 compared to 85 in FY 1996. This increase is a result of HUD's "get tough" policy which has led to increased compliance activity and comprehensive investigation of complaints. This in turn has resulted in an increase in the percentage of VCAs signed after FHEO has identified problems with a recipient which appears to be a violation of Title VI and/or Section 504. FHEO intends to increase the VCAs by 5 additional agreements per year over the next five years.

With the cooperation of HUD-funded program offices, FHEO continues to implement outreach efforts with national or local minority and disability advocacy organizations regarding HUD-funded programs and information on local participation organizations. The steady growth in the number of organizations FHEO contacts will greatly assist the Department in providing educational information to organizations and industries on HUD-funded programs of benefit to national and local minority and disability organizations. Through seminars, workshops, training, the dissemination of information; formation of partnerships with local building departments, proactive staff efforts to seek out agencies and provide technical assistance, and staff participation in a variety of conferences, workshops and seminars, FHEO is educating recipients of HUD funds - housing providers, State and local Governments, and others - of their duties under the Fair Housing Act, the Americans with Disabilities Act (ADA), and the Architectural Barriers Act (ABA).

Most recently, HUD conducted 10 training sessions nationwide to educate public housing authorities on the Department's occupancy standards for public housing authorities and on the accessibility requirements of the ADA and the accessibility requirements of the Fair Housing Act. In addition, HUD processed 13 ABA complaints; monitored 8 pending cases; and closed 5 complaints.

Voluntary Fair Housing Programs

HUD establishes voluntary compliance programs with the housing and lending industries to further fair housing. The two main programs are: the Voluntary Affirmative Marketing Agreements and Fair Lending- "Best Practices" Agreements.

HUD has Voluntary Agreements with five national housing and mortgage lending industry groups to promote compliance with the Fair Housing Act, to promote development of affirmative action programs to prevent or eliminate discrimination, and to create an environment that increases mortgage credit to low-income and minority persons.

Fair Lending – Best Practices Agreements (BPAs) are a significant part of HUD's effort to break down the barriers to equal housing opportunity, eliminate spatial separation, and expand homeownership opportunities for minorities and low-income persons by combating inequity in the processing of loan applications. As of September 30, 1997, a cumulative total of 140 voluntary BPAs have been negotiated with individual lending institutions, including 100 individual mortgage lenders, 11 regional and national mortgage (or mortgage-related) associations, four lending service organizations, 14 banks or depository institutions, two housing finance agencies, one credit information provider, and one credit counseling non-profit organization. Of the 140 cumulative BPAs, 69 were executed in FY 1997, 60 were executed in FY 1996, and 11 BPAs were executed in FY 1995.

Number of Fair Lending – Best Practices Agreements Negotiated